

President's Commission
to Strengthen Social Security

*Tuesday,
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A T T E N D A N C E

Wednesday August 22, 2001

MEMBERS PRESENT:

Senator Daniel Patrick Moynihan, Chairman
Richard D. Parsons, Co-Chair

Samuel Beard
John Cogan, Ph.D.
Estelle James, Ph.D.
Gwendolyn S. King
Gerald Parsky
Timothy J. Penny
Robert C. Pozen
Mario Rodriguez
Thomas R. Saving, Ph.D.
Fidel A. Vargas

ALSO PRESENT:

Mike Anzick, DFO
Social Security Administration

I N D E X

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KEYNOTE: "----" Indicates inaudible in transcript.

WELCOME AND OPENING STATEMENTS

CHAIRMAN MOYNIHAN: I would like to welcome you to this latest public hearing the commission is holding.

As you observed at the last occasion, those of you who were here, my distinguished co-chairman and I passed the gavel back and forth, and I have the high honor and distinct privilege of passing the gavel to you, sir. Now, how is that for formality?

CO-CHAIRMAN PARSONS: Thank you, Mr. Co-chair. Let me add my own welcome to all of you who are here. We are sorry to be a little late in getting started, but we appreciate your interest in this important subject matter and your attendance here today.

Hopefully you all have an agenda. But for those who don't, let me tell you what we are going to be doing this afternoon. We are still in our information gathering, perspective shaping phase of the work of the commission, having put out the interim report where we talked about the nature of the problems that we see facing the Social Security system.

We are now trying to find out more about what the solutions might look like, and we are going to hear from some experts today who have dealt with this issue in other context. And I will introduce them shortly.

Then we will have a short discussion after they have testified, and we will have some Q&A with them about the

commission's upcoming public hearing, where we will invite members of the public and interested commentators to come and share their views with us.

But before we proceed any further, I would like to introduce you all to Ms. Lea Abdnor. Lee is the newest member of the commission.

(Applause.)

CO-CHAIRMAN PARSONS: We have been shorthanded, and Lea is not sitting at the table today because we have got one or two things that -- the counsel. You know, we made a comment earlier about we are the most over-lawyered commission in the history of the world.

Counsel is still doing some final dotting of i's and crossing of t's. But we all look forward to your full participation, Lea, and we are grateful that you have agreed to join us, notwithstanding what has been going on of late.

CHAIRMAN MOYNIHAN: But don't say a word. The penalties are -- well, ...

CO-CHAIRMAN PARSON: The other thing I would like to do, just following up on the press conference that the co-chair and I just had, is that there were some questions that came up that were more appropriately referred to counsel to the commission for what I will call FACA compliance, the Federal Advisory commission Act compliance.

We are way beyond my depth of knowledge, and we suggested that we would have FACA counsel, a fellow named

Mike Anzick, identify himself at this public hearing. And, members of the press who have further questions can take them up with Mike, who has agreed to stay for as late as it takes into the evening to deal with your questions fully, completely and straightforwardly. Mike, could you wave.

(Mr. Anzick stands.)

CO-CHAIRMAN PARSONS: There is the man.

CHAIRMAN MOYNIHAN: At \$500.00 the hour even.

(Laughter.)

CO-CHAIRMAN PARSONS: Okay. What we thought would be helpful to the commission, and maybe even enlightening for the audience, would be to hear from some of the experience of those who have been involved in administering large pension and retirement plans that have the element of portability. That is to say where you can -- both personal accounts and accounts that are movable, regardless of where your particular employment may be at a moment in time.

And we have asked two gentlemen to come and speak to us and then take our questions, the first of whom is at the table, the so-called witness table in front us. Roger Mehle.

Roger is the executive director of the Federal Retirement Thrift Investment Board, which oversees the Thrift Savings Plan, which is a 401K style retirement plan for federal employees. It is relatively new, but Roger is going to come and share with us some of his experience and, as I

say, enable us to pick his brain in a public setting a little. And for that, we are enormously grateful. Roger.

HISTORICAL EXPERIENCE IN ADMINISTERING

PORTABLE PERSONAL ACCOUNTS

By Roger Mehle

MR. MEHLE: Thank you, Co-chairman Parsons, Senator Moynihan and members of the commission. As you said, my name is Roger Mehle. I am the executive director of the Federal Retirement Thrift Investment Board, and as such, I am the managing fiduciary of the Thrift Savings Plan, or TSP, for federal employees.

I welcome this opportunity to appear before the commission on behalf of the board. The commission has invited my testimony as part of its review in historical experience in administering portable personal accounts.

Although the board has no view regarding any proposals to change Social Security, our experience with the TSP may provide some useful information for the commission in its deliberations.

My prepared statement contains a rather extensive discussion of the relevant issues of TSP structure, governance, record keeping, benefits, communications and investments. But I will limit my oral remarks today to the issues pertaining to governance and investments.

And, of course, I will be happy to answer any questions you might have regarding my entire testimony.

The TSP is a voluntary savings and investment plan that provides a mechanism for federal employees to accumulate capital for their retirement. It was enacted into law with bipartisan, congressional cooperation and support as part of the Federal Employees Retirement System Act of 1986.

We often refer to this piece of legislation, which is the organic act for our agency, as FERSA, F-E-R-S-A. FERSA created the Federal Employees Retirement System, sometimes called FERS, F-E-R-S. FERSA created this system to replace the old Civil Service Retirement System, or CSRS.

The TSP offers employees of the federal government the same types of savings and tax benefits that many private corporations offer their employees under Internal Revenue Code Section 401K, retirement plans. The TSP currently has approximately two and one half million individual accounts, and an additional 2.7 million members of the Uniformed Services will be eligible to sign up beginning in October of this year.

TSP fund balances have grown to nearly \$100 billion, and each month participants add more than \$700 million in new contributions, which portends substantial growth in the size of the Thrift Savings Plan in the foreseeable future.

Participants may contribute to any or all of five investment funds, transfer their monies among the funds, apply for loans from their accounts and receive a

distribution of their accounts under several available withdrawal options.

TSP administrative expenses are borne not by the taxpayer, but by the participants themselves. The government-wide participant rate for employees covered by FERS stands at 86.6 percent, with eight major federal agencies showing participation rates of 90 percent or greater.

TSP participation by CSRS employees is currently approximately 66 percent. The difference between the two may be attributed largely to the fact that for FERS employees there are matching contributions made by their employing agencies, where there is no such match for CSRS employees.

TSP benefits are in addition to the FERS and CSRS defined benefit basic annuities; however, for FERS employees, the TSP is an integral part of their retirement package, along with the FERS basic annuity and Social Security. Without participation in the TSP FERS employees usually would have insufficient retirement benefits in comparison to those available under CSRS, and this is because the formula used to compute the FERS basic annuity is not as generous as the formula used to compute the CSRS benefit.

The TSP is administered by the Federal Retirement Thrift Investment board, which was established as independent federal agency under FERSA. Governance of the board is carried out by five part-time presidential appointees who

serve four-year term and by a full-time executive director selected by those appointees who serves an indefinite term.

With input from the executive director and his staff, the board members collectively establish the policies under which the TSP operates and furnish general oversight. The executive director carries out the policies established by the board, the board members and otherwise acts as the full-time chief executive of the agency.

FERSA provides that all monies in the Thrift Savings Plan are held in trust for the benefit of the participants and beneficiaries. As fiduciaries, the executive director and the board members are required to act prudently and solely in the interest of TSP participants and beneficiaries. This fiduciary responsibility gives the board a unique status among government agencies.

Congress wisely, in my opinion, established this fiduciary structure because it recognized that all funds held in trust by the plan belonged to the participants, not the government, and thus must be managed for them independent of political considerations. Congress also exempted the board from the normal budget appropriations process and the legislative and budget clearance process of the Office of Management and Budget.

The plan's independence is critical to insure the fiduciary accountability envisioned by FERSA, so long as the plan is managed by the fiduciaries named in FERSA. That is

the executive director and the members of the board. In accordance with the statute's strict fiduciary standards, federal employees can be confident that their retirement savings will not be subject to political or other priorities, which might be imposed by the usual budget appropriations and policy clearance process or otherwise.

A word about our investments. The TSP is a participant directed plan. This means that each participant must decide how the funds in his or her account are invested.

As initially prescribed by FERSA, participants could invest indirectly in three types of securities: U.S. treasury obligations, common stocks and fixed income securities.

In 1987 these options were implemented by the board in the form of a government securities fund, the G-Fund, a common stock fund, the C-Fund, and a fixed income fund, the F-Fund. In 1996, on the board's recommendation, Congress authorized two additional investment funds, which allow further diversification and potentially attractive long-term yields. A small capitalization stock fund, or S-Fund, and an international stock fund, or I-Fund, were offered beginning in May.

The fund assets held by the F, C, S and I funds are all index funds. Indexing is a common form of portfolio management in which securities are held in proportion to their representation in the stock or bond markets.

The philosophy of indexing is that over the

long-term it is difficult to improve upon the average return of the market. The investment management fees and trading costs incurred through indexing generally are substantially lower than those associated with active portfolio management.

The employment of index funds also precludes the possibility that political or other considerations might influence the selection of securities. In that regard, FERSA explicitly provides that the voting rights associated with the ownership of securities by the board's funds may not be exercised by the board, the executive director, other government agencies, a present or former federal employee or a present or former member of congress.

Instead, the manager of the C, S and I fund assets, currently Barkley Global Investors, has a fiduciary responsibility to vote stock proxies solely in the interest of TSP participants and beneficiaries.

A final comment, and that is about the returns of the board's funds. From the beginning of the G-Fund's existence in 1987 and the beginning of the F and C-Fund's existence in 1988 through July of this year, the G, F and C funds have provided compound annual returns of 7.2 percent, 8.1 percent and 14.8 percent respectively.

Because the S and I funds were introduced in May of this year, the board has no significant history for them yet.

The indexes which they track, however, have produced compound annual returns of 15.9 percent and 8.2 percent

prospectively for the 10-year period ended December 2000.

The expenses of the TSP, which are netted out of the returns I just gave you, are very low in both relative and absolute terms. For example, in the year 2000 the expense ratio for the C-Fund was 6/100th of one percent. That means that the year 2000 net investment return to participants in the C-Fund was reduced by approximately 60 cents for each \$1,000 balance invested in that fund.

These costs compare very favorably with typical private sector 401K service provider charges. I believe that the Thrift Savings Plan has effectively and efficiently realized the numerous objectives congress thoughtfully established for it 15 years ago.

To the extent that our experience is useful to the commission, the board welcomes the opportunity to provide any additional information you may require, and I would be pleased to respond to any questions that you may have at this time.

CO-CHAIRMAN PARSONS? Thank you. Very impressive, particularly on the return side.

Are there any members of the commission who have questions for our guest?

CHAIRMAN MOYNIHAN: Mr. Chairman, may I simply make light that Mr. Mehle did not make -- appear before us as the executive director of this board. In a real sense, he is the creator of the board.

In the period when this whole matter was being conceived, you were a member of the board. He became so impressed with the possibilities and the public service that he could perform that he chose to become an employee of the board he had chaired, and he has done a superb job.

As a benefactor, I want to thank you and all 2.8. The thought that Marine Gunnery Sergeants are going to have a position in the G-Fund is a new idea, but there you are. Congratulations to you, sir.

CO-CHAIRMAN PARSONS: Questions?

DR. JAMES: First of all, I would like to thank you for coming here to answer our questions. The TSP is really an interesting model to explore. So you are not only benefiting federal employees, but you are giving us a lot of information and ideas.

I have two sets of questions. One concerns the investment choices that people make, and the other concerns how you handle the record keeping and collections part of the job.

With respect to investment choices, could you just provide us with information on the breakdowns of investments among those funds and how they evolve through time, if they have changed through time, as people have gained more experience? And also, any information you have on whether these investment choices differ among different income groups and between the genders.

So, that is just a strictly informational question about investment choices.

The second question concerns your record keeping function. Could you give us -- because that is something we really have to be concerned about if we set up an individual account system.

We will have many individual accounts. Of course, it will be much larger than the Thrift Savings Plan, but still, your system is a fairly large one, and so you have to deal with setting up an information system that could keep track of individual accounts for many people and over many years.

So, I wonder if you could give us some insights on your experience from that. For example, how much does it cost? The capital costs and amortized over some period of time. I understand that recently you have changed your information system and, if I am not mistaken, that you have acquired new technology for keeping track of individual accounts.

So I would be interested in learning why you did this; what problems you ran into as you tried to develop a new information system. How long did it take you to set this up? Did it take longer than you expected?

For example, in some cases in Sweden it took them longer than expected; it cost more. So any insights you could provide about the information systems for record

keeping would be useful, since that is something we have to be concerned about.

MR. MEHLE: All right. I will start with your first question. I am not sure I am going to hit every point that you mentioned. But if not, you can tell me.

Right now we have, as I said, about \$100 billion in total balances. We have five funds. As of the end of July, and this will work out to be a percentage, as well as a dollar number, because we are at 100, we had \$37 billion in our G-Fund. So that is 37 percent. We had \$6.5 billion in our F-Fund. That is the fixed income fund. And we had \$54 billion in our C-Fund, the common stock index fund that emulates the Standard and Poors 500 index.

And in the two newest funds, the S-Fund, which is the small capitalization stock fund, we had about \$600 million. In the international stock index fund, the I-Fund, we had \$250 million.

As to your question about how these distributions may have changed over time, at the inception of the Thrift Savings Plan, FERSA, as originally enacted, restricted the amounts of investments that might be made into other than the G-Fund. So initially, the statute limited the amounts of contributions that could be made by plan participants into the then two -- we call them risk funds, the C and F funds.

That statutory limitation was lifted, as I recall, in 1990. So, some four years, as I remember, after the

original enactment of FERSA, the limits were done away with.

Since that time we have seen a dramatic increase in contributions to the risk funds from the G-Fund, which is not risky, such that, as of now we have, among federal employees, about 90 percent of those who are contributing. The number is somewhere between 80 and 90 percent of those who are contributing; have balances in either the C or the F Fund.

So the orientation of federal employees over time has been more towards investing in the risk funds, as you can tell.

DR. JAMES: More than 50 percent are in the fund right now.

MR. MEHLE: Well, the balance right now is 53 percent. Now that is variable.

DR. JAMES: Right.

MR. MEHLE: It is variable, in particular, because of the market. These fund balances will go up and down not only as a reflection of contributions, but also, as a reflection of gains or losses in the underlying securities that are held by the funds.

As far as the question of women's participation, women versus men's participation, what we have observed is it is very much the same. The participation rates are very much the same. The deferral rates, as we call them, which means an amount that the individual chooses to save from his or her salary, are very much the same when you adjust them for

salary.

We note that participation rates and deferral rates are very much a function of salary, and they are also a function of age. But those two are often correlated.

DR. JAMES: And are the allocations also a function of salary?

MR. MEHLE: We find that the younger people have allocated more to the risk funds than those who are older, and this seems appropriate, if an individual was expecting to liquidate the balance and not wishing to take risks with it further.

DR. JAMES: Right.

MR. MEHLE: I might tell you that we have an abundance of statistics along the lines of your question. We would be happy to furnish them. We have time series. We have cuts of every conceivable kind. So we can give you, through your staff, much greater detail on this.

Shall I continue with your question? Or is this --

DR. JAMES: Could you just comment on the information system? I understand you recently changed your --

MR. MEHLE: Well, no.

DR. JAMES: No.

MR. MEHLE: Let me tell you what has happened.

DR. JAMES: Yes.

MR. MEHLE: We have had a system that was built for

us under an intense schedule pressure, starting in 1986, when I was, as Chairman Moynihan mentioned, the then chairman of the Thrift Savings Plans. The Thrift Investment Board.

We were obliged, as of the time of my appointment by President Reagan, to bring the plan up and operating and available to federal employees to contribute. It was a matter of about four or five months, and there was absolutely no ground work that had been laid.

I became the chairman in October, October 1st of 1986, and I was the only employee. We did not have an executive director, we did not have an office, we did not have a hat rack. At the time I accepted the appointment, I might add, with some trepidation.

I had many friends and colleagues, however, still in the administration, because I had been an assistant secretary of the treasury from 1981 to 1983. Many of my colleagues and friends were still in the administration. So I elicited from them, as a price for my accepting this scary appointment --

DR. JAMES: A coat rack.

MR. MEHLE: -- and given the time table, the cooperation to put it all together under the gun, and I got that. It was really quite wonderful to see how everybody could work together in such a productive way.

And we brought this system up, and it began to take contributions from federal employees in April of 1987. Now,

that was with a system that was only partially built at the time.

We had to build it a piece at a time. We knew that the first thing we would have to do was to take contributions. We were not worried about loans. We were not worried about withdrawals, because it was all new.

The system was built for us by the National Finance Center of the Department of Agriculture. It is not an agency with which I had been familiar at the time, but I have become very familiar with it, because the National Finance Center, from that time when it volunteered to do this work for us, has been our record keeper and the developer of our system ever since.

The National Finance Center is in New Orleans, Louisiana. All of our computers, all of our software, all of our call center representatives, all of our operations activities are in New Orleans, Louisiana. Because the system had to be built under the gun with such an exigent time table, it was not done exactly the way we would have done it if we had had more time to study and reflect and consider a variety of alternatives, but it was done.

Pieces were added to it over time. The modules that would permit loans, the modules that would permit withdrawals. Indeed, the ability to make inter fund transfers. We started out with one fund only by statute, the G-Fund.

All of those things were added, and they were done by the National Finance Center with the board staff. We are very, very pleased about what they have done and what they continue to do.

However, in 1996 the board concluded that it would be appropriate to adopt a new system, and the board, after much study and reflection, produced a request for proposals for the building of a new by the private sector.

It distributed these requests for proposals, and it had a number of responses. Ultimately the board selected one of the responses, one of the companies, and after considerably more discussion and evaluation adopted the -- or rather, selected the particular company that presented its proposal. This is a company called American Management Systems.

For the next four years, that is to say from 1997, when the proposal was accepted, until 2001 and this last month, American Management Systems has been working on the development of this new system. It has not been, in the board's view, done well or properly, and this is a matter of record.

On July the 17th the board terminated American Management Systems and brought suit against it in Federal District Court, in the District of Columbia. Because it appeared that American Management Systems indeed was not going to be able to fulfill the latest of its commitments to

the board.

In December of 2000 the board selected a standby or alternate contractor, in the event that it would be necessary to terminate American Management Systems. That company the name of which is Matcom, M-a-t-c-o-m, and Subcontractors, have been engaged by the board, in fact, to pick up where American Management Systems left off; to develop a new system for us, which will be centered around a so-called commercial off the shelf, COTS, record keeping package for 401K plans.

This COTS package will be customized. This is the job of American Management Systems initially. It is now the job of Matcom. It will be customized to accommodate the board's particular needs.

The COTS package is called Omni Plus. It is in widespread use in the private sector as a 401K plan record keeping software package. We expect that the Omni Plus package will be modified for the board's needs and will indeed be delivered to us as of the end of July of next year, and we will replace the system, which while it has served us well, it is outmoded in certain respects. Particularly in the respect of quick adaptability to changes.

So, that is the full story.

DR. JAMES: Yes. I didn't realize it was such a complicated story. I wonder if you could reflect on lessons that could be learned from your experience? You see, I don't think it is really just unique to this particular company and

your particular organization, because many countries have had problems when they have tried to institute record keeping systems for their individuals accounts.

Often it has taken longer, it has cost more and so forth. So I am just wondering what kinds of generalizable lessons we can learn from your experience. Do you have any comments?

MR. MEHLE: Well, there are a lot of issues involving development of sophisticated software packages. I don't think you are asking about that.

DR. JAMES: No.

MR. MEHLE: There are all kinds of project management questions, priority questions, team development questions, all of which, I might add, we have been deeply immersed in.

And I personally come from a background in a former life of fairly heavy project management. I suppose what I would tell you is that to develop a record keeping system for the Thrift Savings Plan was the biggest central challenge that we had, and I was very, very personally involved with the National Finance Center, in 1986 and thereafter, as were many of my colleagues.

They, that is the National Finance Center, had the advantage of doing payroll for hundreds of thousands of federal employees, and there is a large payroll element of what we do, because there are payroll deductions. That is

how participants make their contributions.

This was a critical capability on the part of the National Finance Center, to say nothing of the incredible dedication that they turned to on our job.

CO-CHAIRMAN PARSONS: We have got a few other commissioners who want to ask some questions.

MR. MEHLE: I will go on forever until you stop me.

CO-CHAIRMAN PARSONS: I was getting that impression.

(Laughter.)

CO-CHAIRMAN PARSONS: I was getting that impression. John and then Sam. So, Gerry, John and Sam. Gerry.

MR. PARSKY: I will try to make it very brief. Two questions that I have. One has to do with perhaps giving us some insight in terms of the -- what we can expect by way of participation in a personal account, voluntary personal account system, should we decide to recommend that and it be set up.

My understanding, from your testimony and materials, is that there is a very high percentage of those potential participants that have chosen the option of participating in your plan. Is that right?

MR. MEHLE: That is right.

MR. PARSKY: Would that lead you to believe that should we create a system, that -- create such an option

under the appropriate guidelines, that we could expect a high percentage to participate?

MR. MEHLE: I really don't know. I can tell you what influences the participation in the Thrift Savings Plan, but I have got no idea what might be expected in some other plans.

MR. PARSKY: Why don't you just give a couple of comments on that so that it may -- what influences that under yours?

MR. MEHLE: The match is a very important influence. We have a match of five percent effectively against contributions of five percent. There is a one percent automatic contribution that is made to every FERS employee's account by his or her employing agency. So that is regardless of any contribution.

MR. PARSKY: Okay.

MR. MEHLE: That is an automatic payment for any FERS employee. As soon as a FERS employee begins to contribute from his or her own salary, a match kicks in. A dollar for dollar match on the first three percent and 50 cents on the dollar for the next two percent.

So effectively, the individual can fetch as much as four percentage points into the TSP account from the employing agency. That is for the FERS employees.

As I said, the CSRS employees have no match. Their participation rate is lower. It is 66 percent. The

demographics, however, of federal employees, and in particular CSRS employees, is that they are relatively older and relatively more highly paid. So trying to extrapolate our experience beyond is a job I can't do.

MR. PARSKY: The second question has to do with educating those that participate with risk respect to the risk that may come from participating in one or more of these accounts. There is a lot of commentary that has come out about how we don't want to move to a risky stock market program in creating personal accounts.

What has been your experience or how have you gone about -- first, how have you gone about educating the potential participants that what they are provided, by way of choice, is not that risky? And then second, what has been the experience?

You gave your 10-year returns. That at least would suggest to me that the way in which you have crafted the options has not eliminated all risk, but over a 10-year period has produced positive returns. So, just a little bit on the education, and then second, on your experience in terms of how risk oriented this program may be.

MR. MEHLE: As far as information, we have a central document. You could almost think of it as a prospectus, for those who are familiar with the securities market, and it is called the Summary of the Thrift Savings Plans. This is it. This is our bible.

It contains, for federal employees, everything the employee needs to know to make an informed choice about which funds to contribute to, or indeed, whether to contribute at all.

There is a compliment to it. It is this. It is a much bigger book. It is available on request to anyone really. But presumably to federal employees. It is called a Guide to TSP Investments.

It has got more detail in it about the now five funds and their performance over time, the risks associated with them and the like.

We have a distribution mechanism through the federal employing agencies that sees to it that these kinds of documents get given to federal employees. We also have a website on which every publication that we offer in print is available electronically for downloading.

The further methods that we have of informing federal employees about their choices, the risk associated with the choices, are all ancillary. We have pamphlets that we will give out from time to time reminding people about the options and the like.

It is the plan summary and the Guide to TSP Investments, as a compliment, but not a necessary compliment to it, that does the job. As far as we are concerned we have everything in there that a participant needs to know to make a correct choice or an informed.

Every participant who makes an investment, a contribution, to any of the funds except the G-Fund, which is the Treasury securities funds, must acknowledge that he or she understands the risks associated with investment in those funds.

MR. PARSKY: Nice point.

MR. MEHLE: So we have a record acknowledgment from every individual that that person knows what the risk in those funds are. That is to the question of how we let people know what they can invest. And your other?

MR. PARSKY: The other was based on your experience now, in commenting to this group that is now charged with making some recommendations, how would you characterize the risk profile based on your experience of giving these options?

MR. MEHLE: I am not sure I understand that question. Do you mean are these fundamentally --

MR. PARSKY: Well, let me phrase it a little differently. Some people have commented that in the past year there has been a decline in the value of the 401K assets, for instance, and that that should be a signal to this group not to move in the direction of offering those alternatives, because an alternative like your plan could result in, over the appropriate period of time, the loss of all your money.

From what you cited in your testimony, based on the

experience -- at least the returns that you have achieved, there hasn't been a loss in money. In fact, there has been a significant return on that money.

MR. MEHLE: That is right.

MR. PARSKY: And in part, based on the careful way in which you crafted the options. The indexed approach, for instance, gives diversity and other forms of comfort.

MR. MEHLE: Well, let me tell you that the index funds were the first choice of Congress when we had the statute enacted to administer in '86. The index fund was built into the statute, into what became the C-Fund. It was up to us to pick the index, and we did pick the S&P 500.

Likewise, the S and I funds, which are the other two equity funds, are index funds by statute. We did suggest to Congress that they be index funds.

As far as any returns are concerned over any given period of time, this is a very deep subject, but I think everybody appreciates that students of this area, commentators in this area, will say, in pieces that are well written and thoroughly researched, that the equity markets over time do produce a better real return than do fixed income markets.

Now, whether you hit it at the wrong time or not is a different question. Quite plainly, if somebody last year had gone in and out of the Thrift Savings Plan in the C-Fund, joined the Federal Government and gotten out of the Federal

Government, that person would have presumably had an unsatisfactory experience as far as he was concerned, because last year the equity fund lost nine percent.

But one can study slices of time and come to conclusions about the likelihood of the future replicating the past, in terms of equity returns, but there are a host of studies on this that I wouldn't pretend to try to summarize or paraphrase. This is not my particular -- our particular expertise. I'm aware of these, and I think they are of record.

CO-CHAIRMAN PARSONS: John.

DR. COGAN: Roger, thanks for coming. I appreciate it. Let me commend you on the job you are doing.

It is one thing for the government to write down, on a piece of paper, a plan as big as this. It is another thing to bring it to fruition, and you have done a very, very good job it seems from my perspective here.

I have two questions. The first has to do with choice of fund managers. You choose one fund manager per fund type. Have you considered expanding the number of managers for a given type of fund so that you get more competition among managers to provide better service?

MR. MEHLE: Well, every fund manager selection that we have -- and over the course of the existence of the agency I think we have had -- it is either four -- I think it is four, because we have three-year contracts with limited

renewal options on the board's part. They have all been procured in competition.

Because these are index funds, there is no performance competition so to speak.

DR. COGAN: Right. On the returns.

MR. MEHLE: A party is expected to demonstrate that it can emulate the index of choice well and with a so-called small tracking error. So we are not looking for performance, other than good emulation of the index's performance.

But every time we have had a selection through a competitive process, we have put out an RFP again, and the marketplace has responded.

DR. COGAN: Right.

MR. MEHLE: we have picked Barkley's Global Investors in the most recent round and before then because their proposals have always been the best.

DR. COGAN: And do you envision, as the number of participants grows, that you might run into problems of discuss-economies of scale and so you might expand?

MR. MEHLE: No. Not at all. I don't think so. Not an index fund.

DR. COGAN: So you are completely comfortable with one fund manager?

MR. MEHLE: This is not like the active portfolio management where you hope you will pick a fund manager who is really good and will stay good and that his track record will

turn out to be just as good in the future as it was in the past. We are not betting on individual stock pictures.

DR. COGAN: Right. The second question relates to the administrative expenses, which are very low for the fund managers.

When thinking about applying this model to personal Social Security accounts, we worry about the costs that might be imposed on employers and having a government as a central collector of funds might be a way, some people think, of avoiding a burden on employers.

My first question is do you know how much the administrative costs for the agencies are that have to make -- have to have payroll systems and so forth to make the deposits for the individuals?

MR. MEHLE: No. I don't.

DR. COGAN: You don't?

MR. MEHLE: No. We have cooperation from all of the federal agencies. There are people working in the payroll offices and the personnel offices who are our front end, so to speak, but their costs are all borne by their individual employing agencies. So we don't see them.

DR. COGAN: Right. Right. It does seem to me that if we take this model and apply it to Social Security, right now Social Security -- well, the Treasury collects payroll tax revenue in a bulk and doesn't identify any contributions that an individual might make until W-2 forms are submitted

at the end of the year and then there is a reconciliation period that takes place after that.

And so, when we think about applying this model to a personal Social Security account proposal, we have to think a little bit about the changes in the contribution system that employers have, otherwise we are left with a system that simply effectively makes the deposits for individuals and credits those deposits to individual accounts a year after those deposits are made.

MR. MEHLE: Is there a question there?

DR. COGAN: Yes. Just comment on it. I mean, it does seem to me that we have got this problem where we seem to say -- well, we say that the administrative cost of this system is low, and therefore, we say that, gee, all we have to do is apply the same system to importers at large and the community for personal Social Security accounts.

And yet, what we miss is that this current system -- we don't know what the costs to the agencies are associated with making deposits once a month.

MR. MEHLE: That is true.

DR. COGAN: Right?

MR. MEHLE: That is true.

DR. COGAN: And it seems to me that we should know that if we are going to use this model for a personal Social Security account proposal, because if we don't, we are going to end up with a system where, in effect, we make deposits

once a year, as we do now in the Social Security system.

MR. MEHLE: Well, we have a very important statutory front end system obligations on the part of the employing agency to work with their employees; so that they may contribute to their retirement fund.

As a matter of fact, FERSA requires that each employing agency have a retirement counselor program that it run. It is part of FERSA, but it is an obligation on the agencies, not on the Thrift Investment Board.

DR. COGAN: Right.

MR. MEHLE: So your observation; that you would want to know if you could or it could be known, what it costs separately for an agency to do the work that it must do to get the information to its employees, your observation along those lines, yes. I think it would be good to know that. Whether that is immediately transferable to the private sector, of course, is another question.

We have very sophisticated agencies that are the front end. They are staffed with people whose only job, in some instances, is to deal with the Thrift Savings Plan. Or the major job, the Thrift Savings Plan coordinator.

Whether such a person could be replicated in the private sector in every employer organization is another question. Whether that is advisable is another question. I mean, there are all kinds of questions obviously.

CO-CHAIRMAN PARSONS: I am going to ask each

commissioner to limit himself or herself to one question, since we have lots of interest in the TSP, Roger. We have got Sam and then Tim, Bob Pozen and Gwen.

DR. JAMES: I have got a quickie.

MR. BEARD: My question is simple. It is obvious that we are considering private accounts as part of saving Social Security, and people who don't like that idea talk about risk and they say that people don't nothing about investing.

Just, please, comment. I mean, if you were to advise us -- all federal government employees are not financial geniuses. Is this a roadblock for Apeople who don't know anything about investing?@

MR. MEHLE: Well, to get the information to the individual is a statutory obligation on our part, and what I told you we do we feel fulfills the statutory obligation and is practically effective as well.

So, from our point of view, we have done what needs to be done, both in terms of satisfying the law and in terms of the practical requirements.

As you can tell, we have a very integrated organization. We have the rest of the United States Government to be the front end of our program for us. Without the employing agencies we clearly could not do this.

MR. BEARD: Do you get a lot of complaints from the employees? We don't know how to invest. Please keep us out?

MR. MEHLE: No. Very, very seldom. Perhaps we would have had a lot more complaints if the market had been negative 14 percent for 10 years instead of positive 14 percent. We are, after all, operating in a virtually unparalleled environment for the Thrift Savings Plan, and so that is the only experience that we have.

MR. PARSKY: Just to interrupt for one second. What 10-year period, going back, has every been minus?

MR. MEHLE: No. I didn't say that there was one. I said that if there were one, I'm not sure everybody would be cheering us as loudly as they do. But that is human nature.

We are happy to get accolades that we are doing a great job. I frequently get accolades. AWhat a wonderful job you are doing.@ And I say thanks. But fundamentally, I have nothing to do with it. It is the market that has done this because these are not choices that are being made by us to pick stocks. They are index funds.

CO-CHAIRMAN PARSONS: Tim.

MR. PENNY: You will soon begin enrolling the Department of Defense employees, which will more than double -- or could more than double the number of participants in your program.

Can you talk just a bit about the steps you are taking and the challenges that you have encountered in expanding the program to that degree.

MR. MEHLE: There are about 2.7 million potential enrollees in the Uniformed Services, and that includes, Army, Navy, Air Force, Marine Corps, Coast Guard, public health service and the National Oceanic and Atmospheric Administration. That is not only those who are on active duty, but it is also those who are members of the Ready Reserve.

Fundamentally, what we have done is, in cooperation with the Department of Defense and the other cognizant cabinet agencies, developed an information and communications program for them, and in particular, a plan summary like this one, but for the Uniformed Services.

Their program is very much like that available to civilians, but there are some significant differences, and thus, it is necessary to develop a separate document. That document will be distributed, before the enrollment period, or it should be, to every one of the 2.7 million potential enrollees.

No one expects that every one of those people or even the majority of those people at the beginning is going to enroll. But the way we get to them is the way we get to everybody. Through this document, which is the military corollary, the Uniformed Services corollary. And, of course, as I say, all of this is on the website.

The Department of Defense and the other cabinet agencies are making their own efforts because they do have an

obligation on their own to advise their -- all of the military personnel and Uniformed Services personnel what it is that they can expect to enroll.

This enrollment period will run from October, October the 9th, to January the 31st of next year. Thereafter, there will be the semiannual enrollment options that are available to civilians as well.

When we got started in 1986/87, the enrollment initially in the first enrollment period, as you might expect, was not large because nobody knew anything about it.

The word of mouth was powerful thereafter and, of course, the performance of the funds was a strong inducement as well.

And we kept seeing every successive so-called open season the enrollment going up and up and up, and I think we will see that as well with the Uniformed Services.

CO-CHAIRMAN PARSONS: Bob.

MR. POZEN: Thank you. I want to congratulate you on your very low administrative expenses. I see the administrative expenses here between five basis points and seven basis points per fund, with seven basis points meaning seven 100th of one percent.

I have a little experience with 401K plans, and a lot of the expense in the administrative side is related to plan loans for people, in-service withdrawals and other things that you perform for your participants, and these are perfectly appropriate in a 401K atmosphere where people are

taking loans out and are taking in-service withdrawals.

I was wondering whether you had any estimate of what portion of these expenses could be -- how much your expenses could be reduced if you did not have to do employee loans and in-service withdraws.

MR. MEHLE: No. No. We have had these programs from the beginning. We have never made any effort to do that, and I think it would probably be virtually impossible, knowing what I know about the cost accounting systems that we have. I can't tell you that.

The amount of money that we pay for record keeping services to the National Finance Center is about \$50 to \$60 million per year. Those expenses are strict record keeping expenses. We have some further expenses, our own. That is, to say the expenses of the board. But no effort is managed to try fight off costs and attribute them to one function or another function or a third function.

MR. POZEN: Most processors charge per loan or per in-service withdraw. You have no administrative cost that way?

MR. MEHLE: No. We aren't fee based. We are cost based. So all of our costs for operations are distributed progressively by account balance.

MR. POZEN: Thank you.

CO-CHAIRMAN PARSON: Gwen.

MS. KING: Thank you, Mr. Chairman, and thank you,

Mr. Mehle, for coming. You mentioned that many people participate in the program because of the performance of the program.

I will tell you that prior to my retirement from the Federal Government I was a Thrift saver, and my incentive did not come from the informational packet I was provided. That was one more piece of information I didn't read. My incentive was the one percent that you kept putting into my account.

And so, as I think about some of the work that we are trying to do right now, I have a couple of questions. I have a couple of very quick questions.

CO-CHAIRMAN PARSONS: She has what is called a compound question.

(Laughter.)

MS. KING: The first is how often do employees get a record of what is in their savings account? Do they see it on an ongoing basis? And by way of portability, are they able to close that account whenever they leave the Federal Government? Or are they obliged to leave that account intact until they reach a certain retirement age?

MR. MEHLE: We issue semiannual statements for balances. We issue quarterly statements for those who have loans. We will be, under our new system, issuing quarterly statements for account balances, which will include the loan accounting.

As far as the portability is concerned, when an individual separates from the Federal Government, the individual may leave the balance in the Thrift Savings Plans up until the time he or she becomes 70 and a half when, as with all 401K balances, there must begin a distribution under Internal Revenue -- under the Internal Revenue Code.

If the individual doesn't want to leave the balance on account, he or she may take it out in a number of withdrawal methods. Lump sum is one. Monthly payments is another. The balance may be used to purchase an annuity. When we have our new system next year, these will be permitted in combination. Presently they are permitted only singly.

Also, the individual who takes a lump sum or, under certain circumstances, monthly payments, may ask the Thrift Savings Plan to transfer the balance to an individual retirement account.

MS. KING: Thank you very much.

CO-CHAIRMAN PARSONS: We have two more questions of this witness. Estelle and Mario.

DR. JAMES: This is just a very quick follow up question to what John asked. John asked about the investment managers, and you mentioned that Barkley's Global Investment is the current manager and also was the previous manager.

I am curious if they have been the manager of the index fund all the way through, or have you had period

changes? The reason I am curious is if we were to adopt this kind of system, for example, if we were to have only one manager for each index fund, one question that arises is do you basically have competition up front when the contract is originally awarded and then does that additional winner have an advantage thereafter in maintaining the position of manager.

So I am curious how the competitive bidding process has worked every three years. And have you had a turnover of investment managers? Or has Barkley simply been there from the beginning.

MR. MEHLE: Barkley's has won ever competition that there has been, and we have competed it every time a contract has run out. The competition is primarily in terms of management fees, because we are --

DR. JAMES: And tracking errors. Yes. I know. It is an index fund. I understand.

MR. MEHLE: So they have won every time. I might add that all of our procurements are audited by the Department of Labor, but they have won each time.

DR. JAMES: They also won for the new funds?

MR. MEHLE: They did. They are reaching very hard, which is delightful. We have very aggressive competition, and this is good for plan participants.

DR. JAMES: Thank you.

CO-CHAIRMAN PARSONS: Okay. Mario.

MR. RODRIGUEZ: I just want to make sure I understand. These are owned by the individual. So that makes you accountable to the individuals. So by doing this, this would completely free you up from any political influence whatsoever?

MR. MEHLE: That is the way that FERSA was structured; is structured. We are fiduciaries, the highest legal duty known. We act only and always in the interest of participants and beneficiaries. Were we to act otherwise, we would be liable for breach of fiduciary duty. It is a very sober obligation that we all feel that we have.

MR. RODRIGUEZ: Okay. Thank you.

CO-CHAIRMAN PARSONS: Mr. Mehle, as you can see, your testimony sparked a fair amount of interest and questions on the part of the commission. We appreciate very much your willingness to come and spend some time with us, and thank you for being here and I congratulate you on what is obviously a highly successful and beneficial program for those who participate and those who work for all of us in this United States Government. Thank you again.

MR. MEHLE: Thank you.

CO-CHAIRMAN PARSONS: We were going to take a short break, but we are not because we are running a little behind time, and I suspect that our next speaker will probably provoke as many questions as our previous speaker did.

He is James Wolf. Jim is the executive vice

president of TIAA-CREF, the Teachers Insurance and Annuity Association and the College Retirement Equity Fund. It is the world's largest private retirement system, and it is probably one of the world's oldest, certainly from the point of view of managing a system that involves or embodies the notion of portability of benefits.

So, Jim, thank you for being with us, and we look forward to not only hearing to what you have to say, but having an opportunity to dialogue with you and ask you some questions.

HISTORICAL EXPERIENCE IN ADMINISTERING

PORTABLE PERSONAL ACCOUNTS

By James Wolf

MR. WOLF: Thank you and good afternoon, Chairman Parsons, Senator Moynihan and other members of the commission.

I am Jim Wolf, and I am the president of TIAA-CREF Retirement Services. TIAA-CREF covers almost three million educators and retirees of 11,000 organizations in a defined contribution pension system that has evolved over the last 80 years.

TIAA-CREF's current asset base of \$280 billion enables us to deliver quality administrative service and financial education, as well as to offer flexible retirement pay outs at a low cost because of our economies of scale.

My comments focus on TIAA-CREF's experience in

providing a successful, portable system. I hope the commission finds our experience helpful as it considers a similar program for individual accounts in Social Security on a much larger scale.

As a point of introduction, let me also state that my organization does not have a position in favor of or in opposition to creating individual accounts.

TIAA-CREF operates a national portable retirement system that offers a bundled array of retirement plan services, including account administration, professional asset management, financial education and distribution of retirement benefits. In order to provide an adequate pension, our employer plan contributions typically equal 10 percent or more of a participant's compensation.

In 2000 our average annual premium was \$5,600. Thus, TIAA-CREF accounts, which had an average balance of \$90,000 at year end 2000, reach a level that supports our overall costs.

The work place offers a convenient conduit to build the retirement savings for all Americans, but over the years pension plans have grown more complex. Employees today are actively involved in setting the course of their retirement security and also have greatly expanded range of investment choices to choose from.

For example, within TIAA-CREF, the one straightforward choice between TIAA's fixed income and CREF's

equity investments now involves 10 funds covering a range of asset classes and investment objective. Because of this level of choice and complexity, comprehensive financial education is a must today.

In defining contribution plans, the long-term investment result directly impact the level of retirement income that the pension plan will generate. Thus, TIAA-CREF's founding charter established financial education as an important part of our mission.

Today we use a variety of tools, techniques and media to carry out this role. Our publications include stuffers, pamphlets, newsletters and a full financial education library series. They cover topics such as investment options, retirement income needs and tax issues. The May 2001 *Participant* that we sent to you is just one example of our education publications.

Seminars and individual counseling by registered representatives support these written materials. In addition, TIAA-CREF uses Internet technology to deliver an interactive tool box for financial education. As a result of our diversified education efforts, our participants allocate their funds in an appropriate manner, according to a recent economic analysis.

We have noticed that as participants are more involved and knowledgeable about retirement issues, they demand more quality service, spanning 24 hours a day, seven

days a week. A significant investment in technology underlies the services that TIAA-CREF provides our customers by phone, on the Internet and in person.

Our total call volume in 2000 was 6.4 million phone calls, and at the same time the use of our website has surged to 13 million visits. During 2000 the website's interact facility automatically handled over nine million account inquiries and over 400,000 financial transactions.

To keep our participants better informed, we have also regularly revised our computerized reporting systems. For example, we recently revamped the annual benefit report and altered its mailing schedule to coordinate with the Social Security Administration's benefit statement.

Providing these kinds of services at low expenses, we think, is very important. Our low expenses insure that more money works in our participants' accounts to improve retirement benefits.

The asset fees reflect a different investment in administrative expenses incurred to manage the funds according to the account's investment objective. For example, the total annual asset charges for the CREF money market account is .34 percent or 34 basis points, while the CREF global equities account has a 46 basis point charge.

Part of these charges include approximately 25 basis points to cover the cost of our administrative services.

Turning briefly to the distribution of retirement benefits, more choice and flexibility at retirement has also added complexity for retirees. Prior to 1989 TIAA-CREF required annuitization from the retirement accounts used to fund employer sponsored pension plans.

Since then, employers can choose to allow lump sum pay outs at retirement or termination. The majority of participants still decide to start an ongoing income stream however.

A recent survey of TIAA-CREF participants revealed that this greater choice has caused a greater need for advice. In fact, 84 percent of participants age 50 and over wanted advice on retirement decisions.

TIAA-CREF firmly believes that a lifetime annuity based upon a participant's needs is appropriate for most people. An annuity will provide the maximum amount of monthly income and still assure retirees that they will not outlive their benefits. This protection is key to TIAA-CREF retirees with limited resources to meet their income needs.

People tend to underestimate their longevity, not expecting to live 25 years or more after the age of 65. Retirees focused on preserving their principal may take too little income and not meet living expenses. Conversely, withdrawing too much can deplete retirement funds too soon.

We counsel retirees to make their decision in accord with a number of fundamental principles, and let me

expand on just one, the impact of inflation.

In TIAA-CREF individual accounts members use various asset combinations to help protect purchasing power.

Treasury, inflation, index, securities and real estate can be a good hedge against rising prices. While equity accounts could also prove to be an excellent inflation hedge, that, as we know, is not always the case. As an alternative, TIAA's graded benefit payment method offers a more stable way to increase income over time.

In conclusion, it is clear that our nation's retirement income policy is a challenging and complex topic, and the details are a very important part of the solution. TIAA-CREF is willing to serve as a resource for the commission as you proceed to develop and create a final report.

Thank you, and I look forward to your questions at this point.

CO-CHAIRMAN PARSONS: Thank you, Jim.

Mr. Chairman.

CHAIRMAN MOYNIHAN: Yes. What an extraordinary achievement. One of the other things. Is there any end to what the United States owes Andrew Carnegie? When you think about it, he began this in 1918.

Sir, we associate TIAA-CREF with college and university teachers and administrators and so forth, but I believe that your membership, if that is the term, is much

wider than you might at first understand.

MR. WOLF: Yes. Our primary market has been higher education. In fact, within that existing market only about a third of our participants are faculty. The remainders are administrators or clerical help on campus.

In addition to that, we also provide retirements services to hospitals and other non-profit research institutions. So members of the hospital areas traditionally have also -- teaching hospitals especially have been available for our services.

Roughly a year ago we modified our charter to now make government employees, primarily looking for an opportunity within the K to 12 marketplace, to be also eligible for our products, and we also have made other not-for-profit institutions eligible as well. So we have made some changes in the most recent past to broaden that market.

CHAIRMAN MOYNIHAN: Thank you.

CO-CHAIRMAN PARSONS: Questions? Bob.

MR. POZEN: I am just trying to get a little more information on the expenses here. You have expenses for annuities and then you have expenses for mutual funds. Your mutual fund business is a relatively new business for you, and I see that in your equity index fund your expense charge is 26 basis points, but your assets are less than 100 million.

Two questions. Do you have a sense of what your expense charge would be if your equity index on your mutual funds were to -- like your other accounts meant like the CREF account -- were to be one billion, two billion, three billion? Do you have a sense of how much you could bring those down?

MR. WOLF: Yes. I would assume that we would have the same scale issues that I think we are all going to wrestle with this afternoon and as you go forward, because the size of accounts that we have in mutual funds are relatively small. That business is relatively new.

I don't have the number off of the top of my head, but I would say, as we gain scale and as they become more and more popular, those expenses should go down, as we have seen on the retirement side over the years.

MR. POZEN: I mean, would you think they could go down to 15 or 10 basis points? Is that the range?

MR. WOLF: I would hesitate to guess, not knowing that much about the mutual fund side of the house.

MR. POZEN: The other thing is, again, you allow loans in a lot of these programs, loans and in-service withdraws. Do you have a sense of how much less expense you would have if you didn't have these programs of loans and in-service withdraws? Do you have a sense of what portion they are?

MR. WOLF: I listened to that earlier question, and

I was wondering, when you asked me, what my response would be at that point in time.

MR. POZEN: Well, at least I am consistent.

MR. WOLF: That is right, and it is a good question.

In reality, because we are a bundle provider, we don't fine cut it that much. I can give you some generalities on other aspects of our retirement plan. Loans frankly, although they have become more popular recently, are not a major part of our service demand, and I am not so sure, if we cut that out right now, there would be a dramatic impact on reducing our expenses. Only because it is not a big part of what we do.

MR. POZEN: Thank you.

CO-CHAIRMAN PARSONS: Estelle.

DR. JAMES: I have a follow up question to Bob's question, and also, I would then like to ask you one of the same questions that I asked the TSP about investment options.

But my question about administrative costs pertains to the little detail of telephone calls, because that is another important expense item. And I noticed, from looking at your numbers, that you have an average of one personal telephone call per participant to a person and two automated telephone calls per participant per year, according to your written document.

MR. WOLF: Yes.

DR. JAMES: I am curious -- and personal telephone calls can add a lot to expenses. I am curious if you know how much of that is attributable to the annuity phase, that is, the withdraw phase, and how much of that is attributable to the investment phase.

I am also a TIAA participant, TIAA-CREF, and I have made some telephone calls recently, and they are all in connection with a possible withdrawal phase. So I am curious how you have allocated some of these joint expenses between those two parts.

And when you finish that question, my other question has to do with the investment options people have chosen and how that has changed through time and how that may differ between men and women and high and low earners.

MR. WOLF: Okay. Let me start with the administrative costs and telephones. I did a quick kind of back of the envelope calculation to try to bring that down to a participant kind of a level, and frankly, we think a phone call costs us in the neighborhood of \$10.00 per call.

Now, the great majority of our calls are about the pay-in side of your retirement plan. If you look at the fact that we have over two million participants in the pay-in stage, if you will, versus 400,000 on the payout side, that kind of a ratio, you can see that that is perfectly reasonable and understandable.

If an average phone call costs us about \$10.00, if

I was to say how about a discussion about your retirement options, which is a much more complex conversation -- in fact, we send out a lot of information about what the options are. We send out a lot of pamphlets. We send out a lot of illustrations, we have web facilities, et cetera.

So when we get a phone call about retirement options, it is usually a pretty long phone calls. Where our average call might be an 11 minute kind of time frame today, a retirement phone call is more like 35 to 45 minutes.

So, taking that \$10.00 an average call, I would say for a retirement call you are more in the neighborhood of \$35.00 to \$45.00, and I don't think that is too far out of whack with what the industry would probably zero in on. Although we are a very low cost provider.

DR. JAMES: And many of your phone calls are about retirement issues, rather than about investment issues?

MR. WOLF: Well, I would say a great majority or more about the options in their current allocation setting versus in retirement.

DR. JAMES: I see. Okay.

MR. WOLF: Although, if you look at the demographics, clearly we are going to start to get more of those retirements phone calls. And that is why we are spending a lot of time and effort and resources on those facilities being available through the web. To minimize those phone calls. Number one.

But preferably, when the individual calls about retirement, they are much more informed about their options and we can have a much more intelligent conversation to minimize the amount of time it takes to meet their objectives.

DR. JAMES: Okay. Now, could you just briefly summarize the stock versus bond investment choices, the breakdowns that people have made and how that has evolved through time? And are there differences between the gender and income groups?

MR. WOLF: Okay. Let me give you kind of the 35,000 point of view of that as well.

DR. JAMES: Yes.

MR. WOLF: If you think about our company starting in 1918 and your only option was really on the retirement fixed income side, you get a sense that if we look at even some of our -- a big percentage of our pay-in people, it is very heavily weighted for the older folks, in some cases, toward the TIAA fixed income side of the house.

Now, having said that, I will say since 1952, when we had the initial CREF variable accounts, now almost 70 percent of our participants have greater than 50 percent of their premiums going to the equity side of the house. So it is a very big percentage.

I will tell you, anecdotally, that has shrunken a little bit over the last six to nine months where equities

has fallen back just a little bit and people are starting to invest in some of other options, including inflation link bond account and our real estate account. But still, the equity side of the house is, by far, the biggest percentage.

If you look at male versus female, I don't think it will be a surprise to find out that males are a little bit more aggressive on the equities than females are.

DR. JAMES: And by income group, have you noticed any differences?

MR. WOLF: By income group the lower incomes are a little bit more conservative. A little bit more conservative. Although we would counsel the younger people and, almost by definition, the lower income people that they should take a little bit more of an equity view because of the time horizon that they have. So we would counsel them to do more.

But I think -- if we look at some of the low income groups that you are referring to specifically, I think you would see they are a little bit more conservative.

DR. JAMES: Including younger people?

MR. WOLF: Yes.

CO-CHAIRMAN PARSONS: Yes. People tend not to be stupid, but ...

MS. KING: Just a very quick question. What percentage of your participants are women and what percent men? Is there a disproportionate membership?

MR. WOLF: I don't know off the top of my head.
Fifty-three percent female.

MS. KING: Fifty-three percent female.

CO-CHAIRMAN PARSONS: Bob.

MR. POZEN: I notice that you have, in your participant book, different allocations between equities, real estate bonds, et cetera, for conservative, progressive, et cetera.

If you have participants who come to you and say, we are not sure what to do, we would like you to put together for us an allocation, will you give them an allocation? Will you do a lifestyle for them so that you can sort of help them if they really feel they are a little at sea?

MR. WOLF: What we have tried to do is have these sample models available and pamphlets and brochures, like we have here. More importantly, we have web facilities that will enable an individual to go through and respond to a certain number of questions and determine whether they are conservative, moderately conservative, moderately aggressive or aggressive.

And by doing that, the person can get a real sense of playing with it; what does it do to the specific allocations that we would recommend.

You may know that we do not have lifestyle investment options available through TIAA-CREF. But, in effect, some of what we are talking about is lifestyle

oriented, where earlier in the game they should be a little more aggressive on equities and at the later stages they should start to get a little bit more conservative. We make that apparent when looking at the web facilities that we have.

CO-CHAIRMAN PARSONS: Sam.

MR. BEARD: I have two quick questions. One thing is you recommend that people, when they retire, consider an annuity. People who are against the idea of private accounts lay out charges on the table; that when the private sector annuitizes money -- and they use wonderful words like they rip off 20 percent. So I am wondering. Do you rip off 20 percent?

(Laughter.)

MR. WOLF: No. I think we have a reputation of being a low cost provider because we are. In fact, if --

MR. BEARD: That is a question of advice to us. If one of our options is to set up private accounts and one of our options is annuity, what might the eventual cost of annuity -- let's say someone builds up and they have a portfolio of \$200,000 and now they choose an annuity. What happens?

MR. WOLF: The ongoing payout is a very simple, inexpensive, if you will, approach at paying an annuity over the rest of their lifetime. Those investments are being tracked. They still get ongoing, you know, interest building

up. You can look at what the typical expenses are.

But paying out annuity is not a big part of the equation. What exactly that would be, compared to several other options, I don't have off of the top of my head. But it is not because that is what we are designed to do.

MR. BEARD: So it shouldn't exorbitant fees?

MR. WOLF: I would say it should not be exorbitant.

MR. BEARD: The next question is -- when I read your stuff, it is wonderful. You have 500,000 retirees and they are setting aside an average of \$5,600 a year.

If I am a \$30,000 worker, and I set aside 10 percent a year, that is \$3,000 a year, and I start at the workforce at age 20 and I do that for 45 years, how much money do I accumulate in an account that I would own? I know there is no way absolutely of saying that.

MR. WOLF: Yes.

MR. BEARD: But is there any rule of thumb or models that you have?

MR. WOLF: Yes. The models that we typically refer to, if we were starting today and talking with an individual, we would say they would probably look at something in the neighborhood of 40 to 45 percent of income replacement at retirement time looking at annuity.

And that is with assumptions like you are starting at about 30 years old, you are getting five percent salary increases and you are getting a return on your investment.

Roughly in the seven percent range.

And we would say that by the time you retire, you are probably replacing something in the 40 to 45 percent of your then salary.

MR. BEARD: So the day before I retire, about how much money am I to have in my account? What could a \$30,000 -- assume an average.

MR. WOLF: Well, I would have to do the calculations starting from the start to go out there, and the variables you can change all along the way to come up with a totally different number based on salary increases and what you use as your assumptions.

But right now, our average retiree has \$90,000 in their account. And, in fact, if we look backwards and find out, over the last 30 years, that people have worked at age 65 our retirees now are replacing 80 percent of their current salaries. And that is a dramatic change and it is a function, as was heard earlier, of the stock market over the past 20 years.

CO-CHAIRMAN PARSONS: Let me ask a question. It is sort of crude and maybe even dumb, but it does strike me that TIAA-CREF has been around, as you say, since 1918. You have, that time, had million of participants come through the system. You have been in existence through all the cycles, through the Great Depression, through the recessions of the >60s and >70s.

To your knowledge, has any participant in TIAA-CREF ever lost all of his money?

MR. WOLF: To my knowledge? No. One of the reasons is we try to have a very balanced, small number of investment choices on the equity side that, hopefully, limits that exposure. And, of course, the TIAA side of the house is a fixed return, and we have other fixed returns that people also invest in.

And to my knowledge, that is almost impossible to have happen. Even in that time frame that you are talking about.

If you looked at CREF, and CREF has been around since 1952, since inception that has returned over 11 percent. In the last 10 years it is over 12.4 percent. So, even with all of the ups and downs, since 1952 CREF's classic stock fund is returning over a 12-percent return, and that is pretty good.

CO-CHAIRMAN PARSONS: I understand that. I used to be a trustee of TIAA-CREF.

MR. WOLF: I understand that. Yes.

CO-CHAIRMAN PARSONS: But I am just trying to, at some conceptual level, understand and get your sense of how much risk do these kinds of programs actually entail. And I would agree with you. I don't know how it would be possible, given the structure of TIAA-CREF, for somebody to literally lose all of their money.

Do you have any sense or can you give us any approximation of the percentage of those millions of people who have participated over those 80-plus years how many people would have actually lost money?

MR. WOLF: Off the top of my head I don't know. We could maybe do some calculations for you and get back to you. But the market has come up and down.

I would say, if you started today and put 100 percent in equities and that particular equity investment didn't return anything positive for the next 30 years, yes, you could be in trouble. But what is the likelihood? So...

CO-CHAIRMAN PARSONS: I realize one can only theorize anything. But you have got, as I say, 80-plus years of experience over millions of participants. So I would have some confidence in the sort of statistical validity of your experience.

So if you might -- and I realize this is putting a little bit of a burden on your colleagues. But if you might, just go back and see if over that span of history you can give us some quantification of how many people actually lost money. I would think the percentage would be some fraction of one percent, if at all. But I would be interested to know.

MR. WOLF: We will do the analysis and get back to you.

CO-CHAIRMAN PARSONS: I would be interested to

know. Thank you.

MR. WOLF: But we are really talking a long-term horizon. That is the positive things we have working for us.

CO-CHAIRMAN PARSONS: I understand

MR. WOLF: I mean, any particular short period of time you could have a harsh view of the world, but it is not your --

CO-CHAIRMAN PARSONS: I am not talking about over an artificial period. I am talking about a real person with a real account who had a real experience.

MR. WOLF: We would be happy to do that.

CO-CHAIRMAN PARSONS: Gwen.

MS. KING: Just one final quick question for me. You mentioned \$10.00 a phone call, and that number intrigues me. I don't really know how much or if we have costed it out. Steve Gauss is going, please, don't let her finger me here.

I don't know if we have costed out what phone call costs at Social Security, but it would be interesting to do the comparison there. But my assumption is that you have people answering those phones who are very well informed and who have a breadth of knowledge across the number of areas just in case the question comes in and they have to handle it.

What about foreign language operators? Do you do that too with your telephones? Do you have people who speak

different languages?

MR. WOLF: Because we are primarily domestic, we do have Spanish, but we don't have a wide breadth of other available languages currently on the phone right now. But we can deal with Spanish requests and we will be, in fact, building that capacity up even more so over the near term. But we are basically domestic. So we try to stay with English and Spanish at this point.

MS. KING: I was just in Chicago last week, and the Social Security Administration people out there are dealing with domestic issues as well. But in that one area of Chicago they have some 15 languages of people who are in the country and working and that they are trying to handle.

I just wonder if that complicates the amount of money per telephone call that we would have to look at. But so many of our Americans, as you know, are speaking a lot of different languages these days. So it is just a question I wanted to get checked with you.

CO-CHAIRMAN PARSONS: Bob.

MR. POZEN: Just a point of clarification. I am sure TIAA-CREF has the same position as most financial services providers.

With the rise of the Internet and automated phone calls, including Natural Voice, more and more of the inquiries are handled extremely cheaply, at the 50 cents range, by these sorts of automated inquiry systems and the

web, which is very good.

That has led to the somewhat ironic and anomalous result; that when people actually call, they call because they have a very complicated question, because most of their questions, account balances, you know, various rules, et cetera, are taken care of; so that the \$10.00 per phone call has to be viewed in that context. You sort of say what is your overall service cost.

Most of the service cost for customers are very, very low because most of the inquiries can be handled in these automated or net procedures. But then, if somebody can't be satisfied with that, then they might have a very complicated retirement planning question or something like that.

MR. WOLF: I think that is a valid point when it comes to the retirement questions. But we still have a big cohort that likes to talk to a real person, and that transition is going on.

But clearly, the web, clearly automated telephone facilities and what you can do with a cell phone these days can answer a lot of those questions.

MR. POZEN: And Natural Voice, which is coming.

MR. WOLF: Natural Voice is also a valid one.

MS. KING: So you are saying your average telephone cost is \$10.00?

MR. WOLF: Yes.

DR. JAMES: With a person, not because --

MR. WOLF: With a person.

DR. JAMES: Two out of three telephone calls are automated, according to his document. One out of three is with a person, and that is the \$10.00 one. Right?

MR. WOLF: And that basically is including the cost of the person who is responding. You know, their salary, their benefits, their training expenses. It is not including the cost of the building and some of the infrastructure behind it. It is really zeroed on the person, which is 60 to 70 percent of the expense anyway.

CO-CHAIRMAN PARSONS: John.

DR. COGAN: You mentioned that you don't have a lifestyle fund, which is, I take it, a fund that I invest more heavily in stocks at the early ages and then later on more heavily in fixed income securities. Had you considered it and rejected it? If so, why?

MR. WOLF: No. We have considered it. It is something that we would like to do. What we have right now enables you to do that yourself. It is just not one that you point to and say that is the one I want. I am retiring in 20 or 30; give me this particular fund.

We can do it now. It is not that difficult to do. It is very simple. We have all of the investment accounts that would be necessary to do it. It is just we have been spending our resources on some new and exciting different

things than doing that automatically, to some degree, for our new or existing participants.

DR. COGAN: Do you impose restrictions on shifting money between funds? Bond funds to stock funds?

MR. WOLF: No.

DR. COGAN: None?

MR. WOLF: No. Not between the equity funds.

DR. COGAN: Between TIAA and let's say --

MR. WOLF: Right. But there is between the TIAA and the equity funds. Yes. There are restrictions there because what we try to do in TIAA is long-term investing. So we give you the opportunity to earn more in the TIAA guaranteed side of the house.

But as a result of that, you have some limitations that are there versus an equity side.

DR. JAMES: Would you describe the limitations just so we all know what they are?

MR. WOLF: Yes. Because we are looking to offer a better return on TIAA, we typically invest in long-term type investments that are not particularly liquid. So, should you want those long-term returns, you have to give up some amount of liquidity as well in order to get that higher return, and that is not an unusual function in the financial services marketplace.

What we enable you to do on the pay-in side, however, is to transfer out of the TIAA side to our equity

accounts over a 10-year period of time.

DR. JAMES: So the balance gets transferred out gradually over 10 years rather than immediately?

MR. WOLF: That is correct. It is spread over a 10-year period of time, and the objective is not penalize the people that are still in TIAA that are looking for that better return over the longer period of time. So it is to balance the return versus the flexibility.

CO-CHAIRMAN PARSONS: Okay. We have got time for one more question, if there is one.

(No response.)

CO-CHAIRMAN PARSONS: If not, --

CHAIRMAN MOYNIHAN: Mr. Chairman, can I just say that if it wasn't for TIAA-CREF, I might just now be getting out of jail. After the 1988 election I owed the American Express Credit Card \$23,000, and I didn't have a dime. Somebody suggested why don't you just call up --

CO-CHAIRMAN PARSONS: Call Jim.

CHAIRMAN MOYNIHAN: My God. They do things for me. I mean, I got the \$23,000 the next day, and I was a free man. I could walk around without fear. They erased this and they erased that, and they couldn't have been more generous. And, thank you.

(Laughter.)

MR. WOLF: I am glad we could help, Senator.

CO-CHAIRMAN PARSONS: Well, thank you very much. I

do think it is an exemplar for all of us, in terms of -- we haven't really talked about portability and the advantage that comes from being able to move from employer to employer.

CHAIRMAN MOYNIHAN: It changed higher education in the United States.

CO-CHAIRMAN PARSONS: Right. Without having to worry about whether your pension gets terminated or truncated or lost or stolen or spindled and mutilated. I mean, those aspects of the program. It has been a real leader and a beacon, and I think that you have much to teach as we go down the road here.

And I would be very interested in looking at some of the results that we talked about before, in terms of how people, in fact, have fared, and therefore, what the risk is.

We thank you for coming. I appreciate your testimony and your willingness to answer our questions. Thanks a lot.

MR. WOLF: Thank you.

DISCUSSION OF PUBLIC HEARINGS

CO-CHAIRMAN PARSONS: Okay. We are going to, I think, press on, as opposed to taking a little break, because we don't have all that much to do. I am going to, in a minute, call on my fellow commissioners to see if anybody has any wrap up comments they want to share with their fellow commissioners or with this audience.

I would say this: We have talked about it before,

but just so that it is a matter of public record, the commission's next phase would be to move into public hearings. We have scheduled all day hearings in San Diego on the 6th of September and another hearing on the 21st of September in Cincinnati, Ohio.

We asked last time for people to submit requests to appear and some synopsis of their testimony. We are working with staff now to sort of go through that to sort of create as broad a range and as balanced a range of input as we can.

We are looking forward to hearing from the public and various interest groups and constituencies on those dates and in those hearings.

And the door hasn't closed yet. So anyone who is still out there who thinks they might like to testify before the commission, if you would be in touch with us, we will see if we can't squeeze you into one of those two hearings.

Having said that, Mr. Chairman, I have nothing further to contribute. But I do think I will just swing around the table and see if any of our fellow commissioners do.

CHAIRMAN MOYNIHAN: Mario is down there. Come on down.

CO-CHAIRMAN PARSONS: Now, you shouldn't feel compelled to speak. But if you do, this is your moment.

MR. RODRIGUEZ: This is my moment. I just think that we have listened to today was very interesting, and I

was very impressed to see all the numbers that they showed us on the return on the investment. And I am really looking forward to the September 6th hearing in San Diego, because I think it is really important that we hear what the general public has to say because it is very important to us.

CO-CHAIRMAN PARSONS: Tom.

DR. SAVING: Well, I have a -- I think this has been very interesting in giving us a feel for what two very broadly based investment funds are like and what the administrative costs are, and it is consistent with the other materials that we have had that have come to our attention, and hopefully, in the public hearing will come further to our attention.

That is, what the relatively low administrative costs that very broadly based, meaning very large participation funds, can have, in contrast to the level of administrative costs that have been brought out by individuals who appear not to be in favor of any kind of a system like this.

CO-CHAIRMAN PARSONS: Roberto.

MR. POZEN: Well, I just want to mention that the Congressional Research Service has come out with this report over the last few days in which they evaluate various approaches to Social Security, and I was concerned that this has been reported by some people in the media as suggesting that somehow reform is problematic.

But I think to the contrary, that this report show that if we do nothing, that there will be a 32 percent benefit cut, according to this report. And that shows that if various other things are done, various reform measures, one of them being some sort of personal account, that then there is a possibility of a modest benefit cut, such as five or 10 percent.

But there is actually a possibility that overall the total will be positive. So I think that I just wanted to emphasize that people should take a look at this report.

And instead of saying, well, even if various reforms are done, there still might be a little in the way of benefit cut to realize that the do nothing plan involves a benefit cut of 32 percent in the out years and that while none of these approaches, including personal accounts, are panacea or perfect, they do involve a much better deal for people, meaning much lower cuts and possibly some positive returns.

CO-CHAIRMAN PARSONS: John.

DR. COGAN: Let me just echo what Tom said. We should keep our eye on the ball it seems, and the ball is the return value that personal accounts can provide. Yes, administrative cost are important, but from what we have heard today there are ways of structuring the system so the administrative costs are just very, very small fraction of the returns that the system can generate.

CO-CHAIRMAN PARSONS: Ms. Gwen.

MS. KING: I thought, Mr. Chairman, that today's session was very useful. As you know, I have been focused quite a good deal on communicating with the public and making sure that we give participants sufficient information about these plans so that they will know what it is that they are doing with their money, and I think the testimony today has been very helpful in pointing out that communication and public information is a very important part of any plan.

And I would hope that going forward we would keep that in mind, because it is going to be very, very important for people who are investing and who are putting these accounts together to know exactly what the impact is for them in the future.

CO-CHAIRMAN PARSONS: We are going to go, I guess, down to the other end. Sam.

MR. BEARD: One of the things I would like to cede my time basically to Senator Moynihan. One of the issues that has come up is if you talk about trying to save Social Security and one option is to add funded accounts, some people characterize this as a brand new, shocking or even radical idea.

And I know that from my perspective -- I have been working in this now for 10 years. President Clinton's Social Security Advisory Council, in 1994 and 1996, all members, all members of that said we need to x-ray the return from the

private sector.

So the choice was not whether to invest in the private sector or not. The choice was do we want the Federal Government to invest many trillions of dollars, and one third of the members of that commission favored that.

And the other two thirds said I don't think the idea of the Federal Government investing many trillions of dollars is good. Let's have people have individual accounts.

I am paying my money to Social Security. Let a part of my money go into an account which I own.

And, Senator, what I would refer back to you is you had mentioned to me that President Roosevelt, going all the way back to the 1930s, had talked about a system of this nature. Can you comment on that?

CO-CHAIRMAN PARSONS: Exactly how much of your time did you cede?

(Laughter.)

MR. BEARD: My intentions were better than reality.

CHAIRMAN MOYNIHAN: Well, actually it is in our book, today's book, at tab three. It is the message to Congress on Social Security, January 17, 1935, a few weeks after the Committee on Economic Security, headed by Francis Perkins, had reported to him.

And President Roosevelt states, AAt this time I recommend the following types of legislation looking to economic security:@ One, unemployment compensation. And

that came first in 1935 obviously.

Two, old age benefits, including compulsory and voluntary annuities. On the next page he says, and I am not going through the details of this, voluntary, contributory annuities by which individual initiative can increase the annual amounts received in old age. It is proposed that the Federal Government assume one half of the cost of the old age pension plan, which ought ultimately to be supplanted by self-supporting annuity plans.

I mean, this is present at the creation. We have not brought in some monstrous proposal for letting Wall Street rip off the Americans. For what it is worth, if I could just use my minute that is left, --

CO-CHAIRMAN PARSONS: Now you are on your own time.

CHAIRMAN MOYNIHAN: My own time. To tell the other panel that we had a good meeting this morning with the Treasury Department officials. In the last administration, in 1997 and 1998, they did a very great deal of work at the request of the White House on how you might create personal savings accounts in the Social Security System.

There were two options that they presented. They are going to send them over to us, and then they are going to do some more work for us. They couldn't have been more cooperative, and we are very, very grateful to them.

CO-CHAIRMAN PARSONS: Thank you. Estelle.

DR. JAMES: I would just like to comment on a

couple of things that I took away from the session today.

I think it is interesting that the two organizations that were represented are serving groups that are often thought to be quite risk averse and conservative in their investments. That is, government employees and college professors.

Yet these two groups took full advantage of the opportunity to invest in individual accounts when they were given that option, and in particular, the opportunity to invest in equities. We see that more than half of the money is going into equities and this has increased over time.

These organizations both have adopted measures that reduce the risk attached to equity investment so people are able to invest in equities and earn the higher return at a contained sort of risk, and also, they have undertaken measures to keep administrative costs low.

I think there are three measures that they have undertaken that we should think about seriously. One is limited investment options. There are choices, but there are not an infinite number of choices. There are five to 10 choices in each case.

Secondly, each of these choices requires broad diversification, because ultimately broad diversification is the best protection against risk.

And third, there is a heavy emphasis on index funds or quasi index funds, a large emphasis on having all or a

large proportion of the portfolio indexed, which keeps administrative costs low.

So I think we should think about these three design features, limited choice, large diversification and use of index funds, as measures that will enable the workers of a country to invest in equities, earn the equity premium, while keeping costs and risks under control.

CO-CHAIRMAN PARSONS: Fidel.

MR. VARGAS: Well, first of all, I just want to say that today was a feeling of work beginning, because now I think we are beginning to talk about the specifics of what we might consider in terms of making any specific recommendations.

And from my personal perspective, I am beginning now to really look at the specifics of the proposals, and more specifically for me to look at. And we have talked about this before: strengthening Social Security and having the recommendations that we make really continuing the true spirit of what Social Security was initially intending to do.

And I know there has been some mention of the progressivity of the system being threatened, and I, for one, want to do everything that I can in terms of looking at those proposals to make sure that that is maintained.

So, I am thankful for today, and I think we had a productive session.

CO-CHAIRMAN PARSONS: Tim.

MR. PENNY: I was going to highlight the same point that Mr. Beard and Senator Moynihan stressed. So I guess I would ask the Chairman that I can put my allotted time in some sort of trust fund and retrieve it with compound interest at a future commission meeting.

CO-CHAIRMAN PARSONS: That is right. I owe you
(Laughter.)

DR. COGAN: A penny for the lock box.

CO-CHAIRMAN PARSONS: Let me just write you an IOU.
Thank you.

I will say two things, because we did have two different panels this morning, one of which Senator Moynihan led, which focused on learning more about the administrative side, and one which I chaired, which focused on some of the alternative to assure fiscal stability over time. It was informative.

We are trying to get our arms around what are the various levers and knobs and dials that one can turn, pull and push to hopefully do what Bob Pozen talked about; strengthen the system and create sense of confidence in the system by making it -- by restructuring the way that it is sustainable, which the current system isn't over time, without impacting or reducing benefits and maybe creating an opportunity for Americans to create wealth for themselves, and it is on that last point that I think today's session was most helpful.

It does strike me that the TIAA-CREF model in particular has some real lessons for us. I mean, the commission itself has been accused, even though we put out an interim report that had no recommendations, of trying to scaremonger and alarm the American people.

One of the arguments that one hears all the time is we can't trust people to manage private accounts. They will somehow fritter their money away and the government will have to come in, at the end of the day, and step in to save them.

And I think that the TIAA-CREF model suggests, quite powerfully, the exact opposite; that millions of people over eight decades or more -- and not just college professors, Estelle, but clerks grounds keepers and all people, administrators at colleges, have been exposed to the opportunity to sort of manage funds in the marketplace for themselves, properly structured and carefully administered in a way that it appears that not one of them has lost everything.

And I am going to bet, when the results of that study comes in, we are going to find that very few, if any of them, have lost money against what they have put in.

I mean, I think you will find that for those millions of people this was a way to create something of a nest egg for themselves and their heirs, and I think that is part of what we are about. So I was very encouraged to hear that.

I look forward to our public hearings, and we will soldier on. So, if there is nothing else, thank you all for your attendance, and we look forward to seeing some of you in San Diego.

(Applause.)

CHAIRMAN MOYNIHAN: Or Cincinnati.

(Whereupon, at 3:11 p.m., the hearing was concluded.)