NATIONAL PRESS CLUB LUNCHEON WITH WALTER W. BETTINGER

SUBJECT: ISSUES FACING FUTURE RETIREES

MODERATOR: MARK HAMRICK, FORMER PRESIDENT OF THE NATIONAL PRESS CLUB

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MARK HAMRICK: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. I'm Mark Hamrick; I'm Washington bureau chief for Bankrate.com and the former President of the Club. We are the world’s leading professional organization for journalists committed to our profession’s future through our programming events such as this while fostering a free press worldwide. For more information about the National Press Club, we’d ask you to please visit our website at Press.org. And to donate to programs offered to the public through the National Press Club Journalism Institute, please visit www.press.org/institute.

So on behalf of our members worldwide, I'd like to welcome our speaker and those attending today’s event. Our head table includes guests of the speaker as well as working journalists who are Club members. And so, as we always say whether it’s a political guest or not, if you hear applause in our audience, we’d like to remind you that members of the general public are attending, so it’s not necessarily evidence of a lack of journalistic objectivity.

We’d also like to welcome our C-SPAN and Public Radio audiences today and you can follow the action on Twitter using the hashtag #NPClunch. After our guest’s speech concludes, we’ll have a question and answer period and I'll ask as many questions as time permits. Now it’s time to introduce our head table guests and I’ll ask each of you to stand briefly as your name is announced.

From the audience’s right, we begin with Marilyn Geewax, she is senior business editor for NPR News and a member of the NPC Board of Governors; Eric Meltzer is news systems specialist at the Associated Press; Lorraine Woellert is U.S. economy reporter for Bloomberg News; Jennifer DePaul, a senior reporter with Tax Analysts; Joyce Winslow, coauthor of *Star Spangled Security: Six Decades Safeguarding America*, and a freelance journalist; and Pat Host, a reporter for *Defense Daily*.

Skipping over the podium for a moment, Donna Leinwand Leger, a reporter of *USA Today*, a fellow, past president here at the Club, and she's the Speakers Committee member who kindly organized today's lunch. Donna, thank you very much for that. Skipping over our guest speaker for the moment, Mark Wino is senior associate editor at the Kiplinger Washington Editors, and he's also the Press Club's membership secretary; Ed Barks, who also just happens to be a member of the Board of Governors, and is president of Barks Communications; Patty Giglio, President of PSG Communications; and Rick Levinson, executive editor with AARP Media. Let's give them a round of applause. (Applause)

Walt Bettinger has been thinking about retirement since he was 22 years old, but not the same way that most of the rest of us have been thinking about it. Let's go back to 1983 and Bettinger, fresh out of Ohio University with a degree in finance and investments, funded the Hampton Company, a retirement plan provider. And then fast forward a dozen years later and Hampton was so successful that the Charles Schwab Corporation scooped it up and another dozen years later, in February 2007, he became president and chief operating officer of Schwab, essentially namesake founder Charles Schwab's right-hand man. We're assuming he's right-handed. (Laughter)

The move to position Bettinger as Schwab's successor cheered Wall Street and analysts, but at issue was who would lead this firm managing $2 trillion in client assets and nine million brokerage accounts after Schwab himself, who remains company chairman? Our guest speaker, an Ohio native, now leads a workforce of nearly 14,000 full time employees from the company's headquarters in San Francisco. With branches in 300 U.S. locations, as well as in London and Hong Kong, Schwab is one of the world's largest financial services firms.

He officially took the helm on October 1st, 2008 in the midst of the financial crisis and amid stiff competition from other discount brokerages such as T. D. Ameritrade and ETRADE Financial. But despite all that, Schwab added 900,000 new brokerage accounts to its client base in 2012 alone. Last month, we're told the company reported a 17 percent jump in third quarter profits, and topped Wall Street estimates with earnings of 22 cents a share.

This year, the company added a new program of commission-free exchange traded funds called ETF One Source. Our guest speaker attributes Schwab Corporation's success during challenging times to its strategy of building investor trust and maintaining that trust by seeing investments through the clients' eyes. He said it's a philosophy the company founder himself articulated years ago. At the same time, our speaker has the somewhat unenviable task of filling the shoes of someone who had remarkable success building and defining the company. So, we'll try to find out what that's like.

It's worth noting that Charles Schwab's own vision was to empower the individual investor. As we gather a half decade after the financial crisis, questions certainly linger whether the average person stands a chance. Maybe the question will never go away, but we have an opportunity today to delve into a wide range of questions involving what ultimately is very important to all of us, and that is the personal financial lives of all of us. Please give a warm National Press Club welcome to Walt Bettinger. (Applause)

MR. BETTINGER: Good afternoon, everyone. Mark, thank you so much for that incredibly gracious welcome. It's an honor to be with you all today. It's very humbling. Reminds me of a humbling experience I had about 15 years ago. I was leading a division of Schwab in northeast Ohio, the area where I'd started my firm back in 1983. And we had grown sufficiently that we needed to construct a new office building. And as the building came near construction, probably with a bit too much pride in my heart, I took my three oldest children, loaded them in the back seat of the car and on the way to school said, "Well, I'll drive around and show off a little bit."

And so I took them around the building, the fancy red brick, the shiny windows and the freshly painted parking lot. And as we circled the building and pulled on out of the lot, we went by the beat up dented, rusted trailer with the metal steps that led up to it. And referring, of course, to the building I said, "Well, that's going to be Daddy's new office." And my eight year old daughter leaned forward and in her sweet voice said to me, "Daddy, if you start doing a better job, will they let you move from the trailer into the office building?" (Laughter)

Today really is a special day for our country. It's Veteran's Day, and I hope that all of you will join me in thanking the millions of Americans who've served in our military over the years. They protected our privileges, our principles like the free press, that we all hold so dearly. I think verbally thanking veterans is just one stage. At Schwab, we've actually hired more veterans in 2013 than in any year preceding. They have an attitude of service that aligns perfectly with our culture at Schwab. And on a more personal level, on behalf of my wife and our five children, we just would like to extend our gratitude to all the veterans who have served our country.

For those of you who may be familiar with Schwab only through our founder, Chuck Schwab, or possibly think of us as a traditional discount broker, I'd like to share just a couple of facts. This year marks our 40^{th} anniversary in business. We now serve about 11 million investors and retirement plan participants, banking clients, and are responsible for about $2.2 trillion in assets of hardworking Americans. I share this with you not as an advertisement for Schwab, but rather I want to give you a sense of our deep commitment to saving and investing and our belief in the potential that it provides for all individuals to secure a comfortable retirement.

It was over 30 years ago that I started in financial services, more specifically as Mark mentioned, in the pension and retirement plan administration segment. And I've seen the business change a lot over the last three decades. I've been fortunate, perhaps, to have played a very small role in some of that change and I've watched the demise of the pension plan and the transition to 401(k) plans, a vehicle that today serves over 50 million Americans.

Interestingly enough, from our research, for over half of those Americans, the 401(k) is their primary or exclusive savings they have outside of social security. So when I share a little bit about that context, it may surprise you to know that as I stand before you today to talk about 401(k), I'm actually fairly disappointed and frustrated and it would not be stretching too far to say I'm a bit angry about the 401(k) system. The 401(k) plan that we have today, that we know today, serves everyone; the employers, the service providers, the firms that manage the money, the consultants who advise the employers. I think it works well for everyone except for the one group of people it should really be working for: and that's the average hardworking American.

My sincerest hope is that with your help, influencing and shaping opinions across our country, that we can ignite a transformation, a fundamental change and fix in the 401(k) industry that our 51 million hardworking Americans need. Now, my career with Schwab began in 1994, Schwab purchased the firm that I'd founded about a dozen years later. And with that acquisition, Schwab established a beachhead in the 401(k) industry. We were a latecomer, we had no installed base to protect. So, as a result we did things that were a bit disruptive in the industry. We're credited with starting the concept of open architecture which was the idea that employers and their employees should be able to choose their investments from a broad lineup, not just a single fund family that maybe manages the 401(k).

As a result of some of these innovations, I probably received some undue credit and some accolades. And it was at the event recognizing one of these that I really hit a personal inflection point. I was recognized by a major industry publication with a lifetime achievement award and that lifetime achievement award, a very handsome crystal trophy. And as I sat in the taxi cab and rode back to my hotel after the event, I looked down at the impressive trophy and I read the words it said. It said, “Recognizing contributions to the retirement industry--“ I'm sorry, “Recognizing contributions to the retirement security of working Americans.” And as I sat there and read that inscription over and over, I felt a lump in my throat start to form and that little voice that was inside me, that little voice that I know we all have, it whispered to me, “Walt, is that really what you've done?”

I thought about growing up in a small town in the midwest, one of four children, stay at home mom, my father was a professor, and I wondered how my parents would have fared if the 401(k) had been their form of retirement. I also began to think about my own experience in the industry and the contrast between the way that corporations used to handle pension plans when they had the responsibility for the outcomes of those plans, and the situation now and the way employees are largely left on their own to deal with saving and investing for their retirement.

This was a sincere inflection point for me in my career and in my thinking. The more I thought about it, frankly the angrier I became. I became angry at the service providers, I became angry at the industry, the consultants. And the truth is, I became very angry with myself. The more I looked at the industry and I recognized that it was successful, I realized that the 401(k) plan was failing the people that it actually needed to be taking care of. And I don't think it has to be that way, and I hope you won't get me wrong in my comments. I believe in the 401(k), and I'm confident that we can fix it, we can get it right. But it requires fresh thinking.

Let me go into a little bit of history of how we got here before talking about some of the ways that we can fix the 401(k). Thirty years ago, I was a rookie in the retirement business and as we all know, most companies offered employees a pension plan. The company would make a promise to their employees to provide a specific monthly benefit when they reach retirement. The employer was responsible largely for funding that. They would make cash contributions into a plan, and then they would invest that money with the goal of making sure there was enough to fund the promises that they had made.

And they took their responsibility very seriously. They had to because if they fell short in accumulating the money to meet their promises, there was really only one option: they wrote a bigger check into that plan, reducing their profits and, of course, reducing returns for their shareholders. Employers took that responsibility seriously enough that they hired legions, fortunately for me at the time, legions of actuaries and advisors, consultants, accountants, to help them make the right decisions. Surely, no manufacturing firm or hospital or newspaper company for that matter would see themselves as having all the competency needed to manage this enormous promise that was being made to employees.

So what happened? Well, eventually, companies realized that the retirement obligations that they had made to their employees were beginning to affect their current operations. They were starting, in many cases, to spend more money on funding these pension plans than they were spending on current operations in the company or even their current employees. More succinctly, pension plans became economically unfeasible for most companies.

At the same time, a new solution was on the horizon, 401(k) plans. They were initially designed to be a supplement. But employers, understandably, and I helped many of them, connected the dots. And they realized that the 401(k) plan could be the future without all the promises and obligations placed onto the company. Today, only 11 million individuals in private companies in the United States are participants in a pension plan.

Now, I'm not naïve. Pension plan of yesterday is not coming back, and I'm not advocating for that. Pensions have their flaws also. But I want to look specifically at the 401(k) plan now and see what it has meant to the average hardworking American. Remember when companies had the responsibility to save and invest properly, to fund those promises? They surrounded themselves with the best advisors that money could buy. But what happened with the introduction of the 401(k) plan? Most of us probably know, because we've experienced it. Employees sat in maybe a one hour education meeting, we got a glossy brochure that explained the plan. We got a list of mutual funds that we could invest in, usually actively managed funds. I bet a bunch of us got these little sliders. Unfortunately, I helped design this one. (Laughter)

Today, it might be a website. Maybe it’s an app on my smart phone. But you know what? All those things are silly, every one of them. Hospitals, manufacturing firms, newspaper companies, hired professional help and advisors when they faced the responsibility, but yet we expect the employees of these same companies, nurses, assembly line workers, writers, to figure out how much to save and how to invest their 401(k) accounts. Is it any surprise that more than half of Americans in a 401(k) consider their plan more complicated than their healthcare? Is it any surprise that nearly half of workers in America have no idea how to invest in a 401(k)? And for a third of them, it causes major stress in their life.

Is it any surprise that 401(k) balances are troublingly low? The Investment Company Institute estimates that the median 401(k) balance in the United States is just over $40,000. Every one of us should be troubled by this picture. So what are we going to do? When are we finally going to put the interests of the average hardworking American first?

Clearly, we're not going to be able to roll back the clock to the days of the pension plans. Also, I do not think we should throw out the basic framework of the 401(k) plan, but it has to be fixed. Frankly, I'm going to share with you today that it isn't that difficult, but overcoming the resistance to the necessary fixes is difficult. There are people throughout the industry who are currently employed and compensated by the current approaches, from the service providers to the investment managers, the consultants, and yes of course myself. Every one of us needs to take a step forward and think about things differently in a manner that hit me in that cab ride in New York City five years ago.

We have to ask ourselves, “When are we going to put the interests of the average hardworking American first?” I think the time is now. There are two relatively simple steps that we need to take that will largely achieve what I'm proposing. The first: every single participant in a 401(k) plan, every one of them, should be automatically enrolled in customized, objective, unbiased advice on how much they should save and how that money should be invested given their personal and unique circumstances.

And second, we need to dramatically lower the level of fees associated with the management of 401(k) accounts. Simple? I think yes. Even pretty obvious, I'd say yes to that, too. Easy to do in an industry that employs tens of thousands of people, generates billions of dollars of operating profit? No. But if we don’t address these issues now, I think we’d all agree that the social and financial challenges facing our country can be overwhelming.

How do we do it? How do we insure that every 401(k) participant gets customized objective advice and pays lower fees at the same time? Here's how. We start and we automatically enroll every participant into professional advisory management services. These are services that have to be delivered by independent people acting as a fiduciary. That means their interests are put behind the interests of the individual employee. These cannot be employees of the firm that services the plan. If Schwab's servicing a plan, cannot be Schwab employees. Have to be independent.

And the services should be as customized for each employee as the employer received back in the day when they had the responsibility. Should look at things like the employee's age, their risk tolerance, outside assets they might have, how those monies are invested, marital status or partner status. Do they have a job? Do they have a pension plan? And a whole host of other factors. This type of do it for me advice not only will help employees choose investments that are best for them, but it's going to help them from making the natural and impulsive decisions that we know we're all prone to make as individuals, like bailing out of the equity markets at exactly the wrong time, or building a portfolio that really doesn't match our comfort level with risk. Like cashing out or borrowing against our account without understanding the ramifications of doing that. Or not rebalancing our account on a regular basis.

Now, you might ask, what about target date funds? They're designed to address these issues, aren't they? Well, target date funds were a good solution when they were built, and they largely achieved what they set out to do. But we can do so much better. Target date funds take into account one factor: age. Imagine this example. An individual 401(k) participant walks in to meet with a professional investment advisor. They tell them all about their life; their risk tolerance, their investment strategies, their marital situation, outside assets, a whole host of different factors, a long story. Yet at the end of the conversation, the investment advisor says, "How old are you?" And I say, "I'm 52." "Oh, here's the answer. Here's your target date fund." I walk out of the room, someone else walks in and goes through the same story, but with completely different facts, an entirely different situation than mine. And at the end of that conversation, the investment advisor says, "How old are you?" "Person says 52." Same answer. We can do so much better than target date funds, than single factor advice.

If we get it right, target date funds are going to go the way of this silly slider. They may have been the best way at one time to get advice on a 401(k), but let's be clear, they're not the right answer for today. They're better than nothing, but they're nowhere near as good for employees as customized advice. Does customized advice work? Absolutely yes. Research we've done on plans at Schwab show that employees working with an independent professional doubled their savings rates and set up a far superior investment allocation.

An independent study done by Financial Engines and Hewitt Associates says that a typical 45 year old getting independent, objective advice, would have 70 percent more money in their account upon retirement than someone trying to go it alone. Okay, so I think we would probably agree we need to offer customized advice for participants.

Here's the problem: that's going to cost money. That's an incremental fee. How does that jibe with my second key solution which is we have to lower the overall fees charged to the average hardworking American's 401(k) account?

Again, I think the answer is pretty easy. 401(k) plans should use low cost in depth oriented mutual funds and exchange traded funds, or otherwise known as ETFs. Now, let’s look at the math. If the cost of the customized advice is four-tenths of one percent and the cost of the management of the index funds is one-tenth of one percent, that means that the average 401(k) participant would be spending about a half of a percent total to have their 401(k) managed. That level of expense, depending on which study you want to believe, is lower than 90 to 95 percent of all 401(k) plans in the United States without including any form of customized advice.

Here in Washington, D. C., it’s already well understood. The government thrift savings plan uses index products for its equity allocations, $200 billion worth. Now, how much do fees matter? Fees matter a lot. If we could get fees down to one half of one percent, and nothing else changed, nothing but just the level of fees, the average hardworking American would have almost $100,000 more in their account upon retirement from where they are today. If you apply that across the 51 million Americans participating in 401(k) plans today, by 2050 that’s almost $10 trillion, simply by lowering costs to one half of one percent.

So what stops us? What's keeping employers from automatically enrolling their employees in professionally managed advice? What keeps employers from moving into index oriented investment vehicles? Two entrenched camps stand in the way of this change. First, the major service providers in the 401(k) world are principally asset managers who specialize in managing actively managed funds. That means that they charge anywhere between three-fourths of a percent and two percent a year to try to beat the market.

Now we all know, study after study shows that only a tiny percentage of asset managers can actually beat the market. And an even tinier percent can do it year after year. Now understand, I'm not a critic of active asset management. Informed investors have every right to try to select top managers who can beat the market. But this idea of beating the market does not need to be part of 401(k) plans. The goal of the 401(k) shouldn’t be beating the market, the goal should be offering a secure retirement with consistent performance. We should leave the concept of active asset management and its relatively higher fees, to informed and highly sophisticated investors.

The second entrenched camp resisting changes are the plan consultants and advisors who are hired by the employers who offer 401(k) plans. Now, in fairness, this is not all consultants, but many of them make their fees by telling employers that they are wise enough to select, monitor and suggest replacements among these active managers, that they somehow know which are the funds that are going to beat the market. Why do they hate what I'm talking about today? Because no consultant is needed to monitor and manage index funds; they simply perform at the index. The idea is simple, it’s called self preservation.

This issue is so pervasive that at Schwab as we've begun advocating for the ideas that I'm discussing today, we've actually had consultants threaten that they would do everything in their power to convince employers that we serve in the 401(k) industry to fire us if we publicly spoke about the ideas I'm sharing today.

So we know the two problems. First, we're asking assembly line workers and nurses and writers to manage money like they were experts. And second, we're saddling these same workers with excessive fees which place a drag on their account growth.

And we know the solution. One, automatically enrolling these workers in professionally managed, unbiased, objective managed programs and insuring that their money is invested in low cost mutual funds and ETFs. And lastly, we also know who wants to maintain the status quo: the investment managers who make billions on their actively managed funds and the consultants who make millions insuring that the employer believes they can pick the best of those actively managed funds.

Question is, do we have what it takes to push for change? As I mentioned at Schwab, we've already begun to implement the approach that I've described here. We brand it Schwab Index Advantage. And we are taking a lot of hits from those people who depend on the status quo; entrenched service providers, consultants, frankly and amazing to me, even the industry press. But that's okay. I work for a man who made a living out of challenging the status quo.

But we're just one firm and I'm just one person. We need everyone to get behind these types of changes. Now, I'm one of those people whose personality is I'm often accused of being overly optimistic. But I believe there really is a chance for change. I would argue that over 50 million Americans are counting on us to fix the 401(k). For me, it started five years ago in a cab ride in New York City. When it comes to the 401(k) industry, my hope is that we can all agree that it’s finally time to put the interests of the average, hardworking American first. Mark, thank you so much for the opportunity to be here, and thank you to the National Press Club. (Applause)

MR. HAMRICK: Thank you. Now is when you get to go back to the bench and get some water and then come back on the field. So you've got a lot of ambitious ideas there, and it just so happens you're standing in the middle of the nation’s capital where much is discussed and seldom much is implemented. So, let’s talk about the implementation. Would there be a government solution involved at all?

MR. BETTINGER: I don't think we need a government solution, I think we need courage across the industry, individuals like myself who've been in this business for three decades, maybe even who got where they are with the old model, to stand up and speak with truth and objectivity about what we need to do differently. I think that's all it takes, but it’s got to start and my goal is to try to make it start at meetings like this.

MR. HAMRICK: So in your speech, you referenced a couple of numbers. You said 11 million, painfully low, 401(k) participants and a $40,000 average balance. What makes you think that those people, and others, are better prepared to essentially invest more money in the plan because they aren't participants now? Are you saying it's mostly the information deficit?

MR. BETTINGER: So, there's a couple of numbers there. The 11 million is the number of clients, accounts, that Schwab serves today. The 40,000 is the median balance in 401(k) plans today. What we found is that, again back to our research and our actual client base, when employers sign up for what I've described and automatically enroll their employees in professional, objective advice, employees on average double their savings rates. What it tells us is that they don't know what to do, which is understandable. They're nurses and assembly line workers and writers. And when they have someone who is on their side, who is objective, who is helping advise them, they're more comfortable putting money into the plan. And when they don't, understandably they're more hesitant to put money away and add to this issue that is causing huge stress in their life and they're not equipped to make decisions around it.

MR. HAMRICK: So you referenced broadly social and financial challenges. Could you talk about those a little bit more if indeed the problem isn't addressed? And are we experiencing those right now already?

MR. BETTINGER: I think we are. And, of course, there's many factors contributing to that; demographics, improving healthcare. Today, one of the great challenges we face as a country is we expect in a 40 year working career, and I'm using round numbers, of course, to fund a 30 year retirement. And the math just doesn't work. So it is part of the overall challenges that we face, but we first need to do the obvious. Let's do the easy things, let's do the things I've talked about today that would add $100,000 more on average into people's accounts. That's a first step. Then we may have other things that we have to look at to address this 40 year, 30 year issue and maybe in the future it becomes 50/20, or something different. But that's for those wise folks in Washington to solve, not me.

MR. HAMRICK: Okay. Well, that sounds like a prayer to me.

MR. BETTINGER: I'm accused of going that quite frequently also.

MR. HAMRICK: Indeed, I think we've all been praying these past years and months. Specific questions to your speech, someone says what are the challenges facing pension plans and their recipients? And secondly, who makes up the fees, or what makes up the fees that you are-- the high cost? So perhaps the second question first and then the pension plan question?

MR. BETTINGER: Well, the majority of fees that are paid by employees in 401(k) plans are for the active asset management of their dollars, between three-fourths of a percent and two percent on average, in an effort to beat the market. So by simply eliminating that and going with index funds, which we can construct at about one-tenth of one percent, you've freed up an enormous amount of money to go back into the pockets of the employees.

Now, I believe that they should be, again, enrolled in that professional managed service, but I also believe that they should be given the right, if they are capable and want to, to even opt out of that in which case their only cost would be just the cost of the index funds. But our experience is about 85 percent of people when automatically enrolled say, “Thank you, this is what I've been wanting; someone to do it for me, and I'm going to stay right here and have it professionally managed.”

MR. HAMRICK: Then the question about what are challenges facing pension plans and their recipients?

MR. BETTINGER: Well, the challenges facing pension plans are linked exactly to why we've seen, for the most part, the demise of the pension plan. And that is it’s a long-term promise made in an uncertain world. Think of the interest rate environment today, that most pension plans had interest assumptions of seven, eight, nine percent earnings and it’s just not realistic to attain and it’s not realistic to fund those monthly benefits promised to people far out in the future without taking enormous risk as to whether the company will have to put a lot more money in the plan. Hence you've seen, to a great extent, the demise of the pension program.

MR. HAMRICK: So you said you've been taking a lot of hits on this. Maybe this underlies some of the reasoning there. Would lowering costs necessitate financial advisors losing their jobs?

MR. BETTINGER: No. I'm actually suggesting that we would need more objective, independent professional investment advisors to provide this automatic enrolled investment management service to all these 51 million 401(k) participants. I had no idea I was going to add to the employment good news with my comments. But no, it would not cost jobs, it would actually create jobs. It will take profits out of those who try to beat the market, though.

MR. HAMRICK: So the other questioner seemed to anticipate your answer saying, “Where would all the objective financial advisors come from to fill the need?” And then another question, we had several along these lines, what kind of quality control, best practices management would you have with regard to all that?

MR. BETTINGER: Well, today’s technology enables us to provide very high quality objective investment advice as long and you feed into the compute programs enough detail around the individual circumstance. Sort of the opposite of the target date example I used where no matter what date it was fed in, the answer was always the same based on age.

So there's technology to do that, but then you would have individuals who I think actually deliver that to the employees. That's what we're doing today and I forgot the second part of the question.

MR. HAMRICK: We can move on, that's fine. So another question, somebody said since our economy is tied to consumption, but at the same time we know that more Americans aren't saving enough for retirement, should we consider forcing Americans to save more through a payroll tax increase? And although someone says even though tax increases are already a dirty word.

MR. BETTINGER: The answer to that is above my pay grade. But I would suggest that before we get into a debate on whether we need forced savings, we should first do the obvious things. I mean, how can we take the situation of what employers did and turn it over to employees and give them slide rules and websites and smart phone apps? Let's first do the obvious. When we've done that, if it hasn't achieved our objectives, then it's an idea to look at other alternatives.

MR. HAMRICK: Someone notes, appropriately, that a lot of brokerage firms, and they name Merrill Lynch, provide a lot of financial advice to clients already. Obviously, they're your competitors in a sense, but what's wrong with the services they're providing?

MR. BETTINGER: Well, I'm not to bash anyone on the brokerage side, any competitor, fine firms that we compete with. But I think that what I'm describing is something very different here. I'm talking about objective people that are not the employees of the companies servicing the 401(k) plan who deliver this professional advice. And they got to do it at a really low cost. There are very few people that can deliver the level of advice that I'm talking about at four-tenths of one percent. It takes scale. But that's critical to making all the math work, right? If your funds are going to be one-tenth of one percent, keep the advice at four-tenths so the overall cost is no more than a half percent. Without naming names of competitors, there aren't a lot of competitors that do that at four-tenths of one percent per year.

MR. HAMRICK: Okay. Then we have some general questions, and we'll probably come back around to the retirement issue, but we have a lot of broader questions, too and a short amount of time to address them. And some of these are asking about your position on certain regulatory issues. Here's one. Does Schwab support an SEC rule making to implement a fiduciary standard for broker dealers?

MR. BETTINGER: It's a little bit of an industry technical question but let me respond to it this way. Years ago at Schwab, we put in place that whenever a client is paying us a fee for our investment counsel, we do it in a fiduciary manner, period. What's complicated about this issue is what about the self directed employee and where does the line get crossed between fiduciary? But if we take a fee to offer you our counsel, we take a fiduciary position meaning your interests come before ours, period, end of discussion.

MR. HAMRICK: So specifically, do you support the SEC rule?

MR. BETTINGER: Well, the SEC rule does not address the issues we're concerned about around self directed investors. What I'd hate to create is a scenario where you're a self directed investor and your costs go up many times because we now have to be a fiduciary even though you're not turning to us for any advice. So we have to protect those people who want to be self directed and keep their costs low. But if you want our counsel and you pay us a fee for that, we should absolutely be a fiduciary.

MR. HAMRICK: And there's a similar effort under way, as I understand, at the Labor Department, so someone is onto that, too. And they say, "Do you support the Labor Department proposing a fiduciary rule making under the ERISA standards, I guess?"

MR. BETTINGER: I think for the most part, the issue is similar, which is if we're being compensated by you to offer you advice, your interests have to come first. In my mind, there should be no debate around that. But we can't force self directed people who don't want our advice to pay dramatically more simply because of a new legislative rule.

MR. HAMRICK: We are in Washington, so those questions from time to time come up.

MR. BETTINGER: Fair.

MR. HAMRICK: In fact, the Labor Department, I think you could throw a stone from here if you wanted to. But we wouldn't be for that.

MR. BETTINGER: I don't throw stones.

MR. HAMRICK: Very good. (Laughter) So here's a question, getting back to the retirement issue, what can we learn from other countries around the globe? And I was wondering as you were speaking, are there systems in place elsewhere, in other countries, that are getting closer to the kind of system that you're talking about?

MR. BETTINGER: I don't know the answer to that, whether getting closer. I believe the ideas that we're talking about, though, are universally applicable. I don't think that they're unique just to our country. And as other countries evolve in their defined contribution plans, I think our hope is that people will consider the simplistic concepts that we've shared today and consider implementing them.

MR. HAMRICK: Would you agree with the assumption that one questioner has here, it seems as if making the argument for saving for retirement is most difficult among young people. And do you treat that problem differently, first of all, at present, when you're advising individuals? And how can you address the problem more generally as well?

MR. BETTINGER: What our research has shown is that one of the major reasons young people hesitate to save is because they feel even less prepared than someone who may be older to make all these decisions that we're foisting upon them. And that when you offer professional counsel for them that is objective and they know that they can trust, they are more willing to sign up than if they have to try to do it all on their own. Go back to some of the statistics I shared. For 50 percent of the people, they have no idea what to do. For a third, this is causing major stress in their life. Is it any wonder that a younger person with all the other pressures they're dealing with and without the benefit of maybe managing money ever for themselves that they would be hesitant to put money away into something where they're clueless as to what decisions they should make?

MR. HAMRICK: This is sort of a quality control question as well. The person asks what are the backgrounds of Schwab employees who talk to potential clients before they refer them to portfolio managers, assuming they do?

MR. BETTINGER: Well, all of our professionals who engage with clients have to go through rigorous testing and training, some of it administered by the federal government and the SEC, and some of it administered by us. So in effect, every conversation they have is a reflection of our brand. And so given that, we take very seriously the training that these individuals go through prior to engaging in any direct recommendations with any client.

MR. HAMRICK: So there's obviously been a heated debate, a political debate, about some immediate needs of the Affordable Care Act and some that are longer term. Obviously, you're an employer, we referenced that at the beginning. How does that affect your employment outlook within the company and what has your experience been in trying to manage the healthcare needs of your own employees?

MR. BETTINGER: Boy, there was a softball, huh? I think we have to wait and see as it unfolds. We are big believers in the concept that as the wealthiest country in the world, we should insure that every individual has access to healthcare. How to do that is complex and the unintended consequences of policies still being formulated, we have concerns around. That said, we provide healthcare to all of our employees. We pay the majority of the cost; we would like to continue to do so, we just have to wait to see how everything shakes out over the coming years.

MR. HAMRICK: So when, let's say, a given member of Congress uses that act as an excuse to say employers are ratcheting down their hiring plans because this law exists, does that resonate with you? How has it affected the employment outlook at Schwab?

MR. BETTINGER: I think you have to draw a distinction between a company like Schwab and maybe a company of a hundred people or so like the firm I started. If I was still running that company, it probably would have a chilling effect on hiring. At

Schwab, it’s probably a little bit different. But I can only speak for us, I can't speak for other companies and the implications for their business models of what the healthcare changes could mean.

MR. HAMRICK: We're fine with you speaking for your own company. Here's a question. There's a growing body of evidence that shows Americans are leaving thousands of dollars on the table when they start receiving Social Security earlier than they might. How is the financial community adapting to this research and how best can the industry help educate the public about avoiding that problem?

MR. BETTINGER: That is a great issue and, of course, it is the case that for many individuals, it is far more advantageous for them to wait to begin to receive their Social Security benefits. What we've done is we've offered training and education information to our professionals who engage with clients to help them explain to employees-- I'm sorry, to individuals-- the benefits of potentially waiting. But it’s difficult because what we also know is that for most individuals, remarkably, for most individuals across our country, retirement or what we've traditionally referred to as retirement, is not a voluntary choice. It is placed upon most people as opposed to them deciding of their own free will when that date will occur. So the option, even though it may be economically advantageous to defer, is often not there for retirees in our country.

MR. HAMRICK: A questioner says managed stock investments rarely outperform simple index funds. I guess first of all, is that true? And then the question is shouldn't everyone just be put into an index fund over time because the person asserts you can't beat the market?

MR. BETTINGER: The answer to that question, I would say, is intellectually yes. And if you could put every employee into the index fund option and know that they would never change or drop out, that would be beautiful. It’s just not realistic. What professional advice does is it matches up risk tolerances and comfort levels and helps the employee not do things like I mentioned, bailing out when the markets go south for a period of time.

But absolutely, if you get everybody to go in there and never move, that would be even better for them because they’d save the four-tenths of a percent cost I talked about in advice. It just doesn't work that way. So having someone to hold your hand, with a hand on the shoulder to help you feel more confident tends to keep you in the market and capture the upsides that the markets have delivered for decades and decades and decades.

MR. HAMRICK: Anecdotally, we know that a lot of Americans simply don’t trust the investment landscape that seems to be dominated by big banks, and so forth. I'm wondering what your thoughts are about that? And here's a specific question. Is it possible for the average investor to get a fair shake in the financial markets given the dominance of algorithmic trading and dark pools, among other shadowy institutions?

MR. BETTINGER: I like Mark's confidence in me. He gave me another one of those two question things expecting me to remember the second one. I can't remember the first one, Mark.

MR. HAMRICK: Can the average person get a fair shake in the market?

MR. BETTINGER: I think that if you are an investor, you can definitely get a fair shake. An investor is someone who has a plan, takes a long-term perspective, is not trying to guess and not trying to time. If you are someone who believes that you are going to beat the market by timing it, by guessing, by trading on a highly frequent basis, you must be exceptional. And there are some people who are exceptional at that, but that is a very, very tiny percent. The vast majority of people are far better served by not trying to time the market, not trying to beat those dark pools, not trying to beat the algorithmic traders, high frequency traders. Have a plan, take a long-term view, be in an ownership position. Owners generally are paid better than lenders, hence stocks have generally outperformed bonds over the long term, and stick to a plan.

I certainly, personally, would never try to time and beat the market and beat those folks. I'd have no chance.

MR. HAMRICK: Can you talk a little bit about who you regard as your chief rivals in the marketplace? And that'll give you the opportunity to talk about how you have a competitive advantage.

MR. BETTINGER: I think any rival that we have is someone in our business whose business strategy isn't revolved around seeing the world through clients' eyes. I know it's old fashioned, I know it's probably simplistic in many peoples' eyes, but in financial services, maybe more so than any other industry, if you will simply do the right thing by your clients, I think you win. It may take longer, but you win.

We went through the financial crisis at Schwab. I like to say that we were the largest publicly traded firm in terms of assets that didn't take, accept or receive any money under TARP. In the four years after that, we brought in $530 billion in net new client assets. Our four largest publicly competitors, I won't name, collectively brought in 320. I think if you do the right thing, you win. And so I view anyone a competitor whose strategy is not based on seeing the world through the eyes of the client.

MR. HAMRICK: So I know we went through a flash crash in the stock market and there have been regulatory responses to that, perhaps you might want to weigh in on the effectiveness of that. Are those sorts of phenomenon something that essentially keep you up at night? I was talking to Mark Cuban not too long ago and he said his biggest worry right now is simply sort of a hack attack on the financial markets that might take the whole system down.

MR. BETTINGER: We live in an imperfect world and we live in an imperfect world because it's a world operated by human beings. And as long as that is the case, we will have things that periodically go wrong, whether it's technology related or whatever you want to fill in the blank on. We will periodically have issues; that is the world that we live in.

With respect to hack attacks, well certainly there is a burgeoning form of conflict among us as a country and a society and among those who have beliefs that are very different than ours. And the battlefield of the future may be very different than the battlefields of the past. And one of the places that those battles are already taking place is in an around our technology instability. Fortunately, we have extraordinary professionals across our government assisting here, but we should not kid ourselves, that is a battle that is going on every day, every minute, and I can assure you it is going on in the servers of Charles Schwab as we serve 11 million people at this very moment.

MR. HAMRICK: So how much of a priority is that for you in the leadership position you have is to insure as perfect a system as you can knowing that there are a lot of things you can't know?

MR. BETTINGER: Or a lot of things I know but can't talk about. It is a high priority, of course, but I just always want to provide the context, the honest and transparent context of reality that we will live in an imperfect world and there will periodically be issues that will be, for the most part, impossible to prevent despite all best efforts.

I think what our goal needs to be, and what my goal needs to be, is to minimize the frequency and the severity of those as opposed to believe that I have some way to prevent them entirely. The bad guys are smart, too, and the idea that we're going to win at every turn is not realistic.

MR. HAMRICK: Could you comment on the market outlook? We know you employ people who do, but could you talk about-- do you talk about what you see, let's say, might be the biggest challenges facing the stock market and opportunities, say, in 2014?

MR. BETTINGER: It's a really interesting question because there was a *Wall Street Journal* article this morning that talked a lot about is the individual investor back. It had a chart that said there were enormous flows into U.S. equity markets from individual investors, which is contrary to actually what our actual 11 million clients are doing. Our clients are actually quite cautious. About two-thirds of them expect a market correction some time within the next nine months and only about half of our clients think this is a good time to invest in stock.

So we try to avoid making short-term calls. Even our strategists make their calls on more of a long-term perspective. I always put it this way when someone asks me about the market. If someone tells you that they have a solid prediction as to the short-term time frame of the market, run fast. Why? Because if they did, they ain't sharing it with you. (Laughter) It's too valuable, they're keeping it for themselves, they're not making it available. Nobody can predict the market in the short term.

MR. HAMRICK: We presume that we have a very important transition at hand here in Washington as Chairman Bernanke steps down at the end of January. Vice Chair Janet Yellen has a confirmation hearing coming up later this week. Any thoughts about that transition and the particular person involved coming in?

MR. BETTINGER: I don't have any comments on Ms. Yellen. But I will say that our clients are concerned about the policies of the Federal Reserve. And our clients would like to see the Federal Reserve begin a process of heading back more toward a market-driven approach to interest rates. And there will be pain associated with that. We all know that. We've been taking this drug for five years. You can't go cold turkey off a drug, or even begin to slow it down without some pain.

But I think the fear on the part of our investor clients is that you can't stay on the drug forever, either. And so the sooner we begin to take steps that take us back to a more sustainable environment operated more on a market basis, they would feel a whole lot better. Many of the clients who anticipate crashes in the market, it's because of concern around the ongoing policies of the Federal Reserve.

MR. HAMRICK: But you're not saying Ben Bernanke is a drug pusher, right? (Laughter)

MR. BETTINGER: Not in the least. Not in the least. But the policies are like a drug that we've been on for five years. I think the patient, it's time to start to wean them off.

MR. HAMRICK: Just one quick question before we get to the final question, and I alluded to this in the introduction. How tough is it to follow in the shoes of Charles Schwab yourself?

MR. BETTINGER: I think it's an extraordinary honor. There's one Chuck Schwab and I've never tried to be Chuck Schwab, I've tried to be Walt Bettinger. I have a fabulous relationship with Chuck, we meet on a regular basis. I mean, how fortunate am I in my role to be able to sit down and effectively get counsel from someone like Chuck, an icon in the industry, whenever I want it? So from my perspective, it's the greatest scenario I could ever envision. In fact, when Chuck and I talked about the transition, my number one concern that I expressed to him was, "Are you going to be around to offer counsel to me whenever I would ask for it? And sometimes maybe even when I wouldn't, I would still benefit from it." We have a great relationship, and I consider it can honor to serve under Chuck.

MR. HAMRICK: Thank you. Well, we're almost out of time, but before we ask the last question, a couple of housekeeping matters to take care of. I'd like to remind our audiences about some upcoming events and speakers and they are a diverse group, to say the least. On November 18th, Gloria Steinem, a feminist activist and founder of *Ms.* Magazine will be here at the club. And then the chairman and CEO of General Motors will be here in December 16.

And secondly, those of you who are here on a regular attendance know that we like to present our guest with the ceremonial NPC coffee mug as a way of saying thank you.

MR. BETTINGER: Thank you, Mark.

MR. HAMRICK: Thank you, Walt. And so the final question today is what's one decision, either regarding your personal finances or an investment as an individual, that you really regret making? (Laughter)

MR. BETTINGER: How much time do we have? I don't know that I can boil it down to one. I guess I would say looking back to the internet bubble, I probably held onto a few stocks a little longer than probably made sense. But there's too many that I can speak to. If I'd have just had that professional advice and a plan, I would have been a whole lot better off. (Applause)

MR. HAMRICK: How about a round of applause for our speaker today? Thank you Walt, thank you. And thank you all for being here today. I'd also like to thank the National Press Club staff including the Journalism Institute and the Broadcast Center for organizing today’s event, and also to Donna for bringing it all together. And finally, here's a reminder that you can find more information about the Press Club on our website and if you'd like to get a copy of today’s program, you can find that at www.press.org. Thank you, and we're adjourned. (Sounds gavel.)

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