TESTIMONY OF BRUCE R. BENT
FOUNDER AND CHAIRMAN OF THE RESERVE
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

July 16, 2008

Introduction

Chairman Kohl, Ranking Member Smith, and distinguished members of the Committee, my name is Bruce R. Bent. I am the Chairman of The Reserve, the leading cash management specialist for institutional and individual investors and I am also Chairman of Reserve Solutions a sister company. Reserve companies currently manage over $125 billion in assets.

The Reserve is best known as the creator of the money market mutual fund. We wanted a product that would provide a return that reflects actual money market interest rates while providing safety of principal, liquidity and a high degree of safety. As we all now know, the money market fund has been extremely successful with nearly $4 trillion now invested. This for purposes of identification.

I am here today to discuss ReservePlus the Qualified Pension Plan Administration service we provide. ReservePlus was created to help address the challenge of increasing participation by lower income and younger workers who traditionally don't because they feel they cannot afford to lose access to their earnings.

Overview of ReservePlus

To begin, ReservePlus does not approve loan requests, establish or interpret loan policies and is not a plan fiduciary, we are simply a processor. Our service is made available only to participants who have been directed to us by the plan administrator in accordance with their employer's policies.

Once a participant's request has been approved, they direct the plan administrator to transfer their money into a loan account within their plan. The amount in that account is then invested in a Reserve money market mutual fund. Participants may then access the amount in their account using checks or a debit card.

Each ReservePlus participant is provided with materials containing a description of the service, its operation and associated charges. The Committee has been provided with copies of these disclosure documents.

The account opening fee averages $75 and the subsequent annual maintenance fee ranges from $25 to $50, charges that typically apply to both conventional loan programs and ReservePlus and are paid to the plan administrators, not Reserve. As is usual with plastic based transactions, there is a $2 fee for cash advances but no fee for purchases by check or card. In addition, the plan participants pay themselves an interest rate of the prime rate and a service fee to ReservePlus which ranges from 2.90% to 3.25% on loan balances actually utilized.

Benefits of ReservePlus over Traditional Loans

The average loan balance for participants in plans utilizing ReservePlus is approximately 30% **less** than the average loan balance for all plan participants, i.e., $4800 versus $7000. Our default rate is 2.2%; we have been unable to determine the industry average.

ReservePlus is different from traditional programs because participants may establish an account without actually withdrawing funds. Traditional loans actually force money out of the plan by requiring a participant to withdraw the entire approved amount immediately in a lump sum. With ReservePlus, the participant's funds remains in the plan, continuing to earn sheltered investment returns until the participant withdraws them. The participant may withdraw as little or as much as needed at any time, up to the amount approved by their employer. There is no lump sum withdrawal requirement. When participants know they have access to their money, they contribute more into the plan and take less out of the plan,. At the end of the day, participants accumulate greater overall retirement savings using the ReservePlus service over conventional loan processing.

Participants with ReservePlus services are also less likely to default on their plan loans when they leave their jobs. The industry practice for traditional loans requires them to be repaid through payroll deductions. As a result, employees that are terminated, resign, or retire are no longer able to continue repaying their loans. In these circumstances, plans utilizing traditional processing typically give a participant only 90 days or less to repay all outstanding balances.

A participant who is unable to repay the outstanding balance will incur a taxable distribution subject to regular city, state and federal income taxes and an additional 10% penalty if they are under age 59½. Obviously the participant's retirement savings will also be reduced by the amount of the default. This instant repayment requirement in traditional plans is a significant deterrent to employees joining a plan because it comes at a time that participants are least able to afford it. Not so with ReservePlus.

Unlike traditional loan programs, ReservePlus is not dependent on payroll deduction and allows participants to continue making their regular payments even after they leave their employer. Given the increasingly mobile workforce, this feature of ReservePlus helps safeguard participants' retirement savings. ReservePlus also allows participants to prepay advances in whole or in part at anytime, and to reduce the amount available in their loan account at any time unlike traditional loan processing through payroll.

Conclusion

We designed ReservePlus with several concrete advantages to plan participants over traditional loans. I share your concern for America’s seniors and for hardworking Americans like my parents, a postal employee and a school cafeteria worker, in meeting their retirement income needs. I am very proud of the innovations ReservePlus offers to participants in overcoming many shortcomings of the prevailing practices thereby encouraging all workers regardless of income level to participate in a retirement plan to the maximum level as soon as they are eligible.

Thank you for your time. I would be happy to answer any questions you may have.