



All that's hot in the mutual fund industry

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## ICI Spends \$2.3M Lobbying on Retirement, Taxes

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The **ICI** continues to focus a large chunk of its lobbying efforts on the retirement business, while de-emphasizing hedge fund registration and placing a greater emphasis on opening up the Chinese markets.

The mutual fund trade group's \$2.3 million in spending so far this year in its lobbying efforts reflects a mix of issues and politics *du jour*. They include 401(k) qualified default investment options, capital gains tax issues and keeping America competitive in the world market.

While a Senate [report](#)<sup>1</sup> detailing the lobbying efforts does not specify the amount spent on each issue, it does tally the various causes the Washington-based industry group spends money addressing, no matter how tangentially.

Together, the list, when compared with the other reporting periods, reflects the changing concerns of the mutual fund companies the group represents, as well as the shifting priorities of legislators.

"Policy issues come and go, but the fundamental aspects of what we do — build a relationship with key policy makers and educate them on our issues — really remain the same," says Daniel Crowley, chief government affairs officer at the ICI.

For the first six months of 2007, those issues have included a mix of new, old and works-in-progress, with total spending in line with the same periods of years past, according to the lobbying report filed with the U.S. Senate public records office.

Front and center on the ICI's 2007 agenda is the retirement market. Last year, much of the \$2.6 million spent on lobbying between January and June went to support passage of the Pension Protection Act. Its enactment last August proved to be a coup for the industry, as it included most of the provisions the ICI lobbied for.

It not only sanctioned automatic enrollment and permitted plan sponsors to offer advice along with investment options, but also extended tax treatment of 529 college savings plans and increased the annual contributions allowed in 401(k) plans and individual retirement accounts.

This year, the industry group has set its sights on ensuring that the default investment options in 401(k) plans be geared toward target-date and target-risk products that fund companies have rolled out in anticipation of federal guidelines put forth by the Department of Labor.

"The big issue for the ICI has to be savings for baby boomers," says Chip Roame, managing principal of **Tiburion Strategic Advisors**. That means addressing taxes, as boomers who have saved begin cashing out of their tax-deferred plans.

This year's agenda reflects the continued effort to make permanent the 15% capital gains tax rate, which is set to expire in 2010. "Getting it extended is quite a challenge," Crowley says.

Equally challenging, and perhaps more important, is the perennial problem of mutual fund shareholders' paying capital gains tax while they hold their investments, rather than only when they sell, as with other types of investments, says Niels Holch, president of the **Coalition of Mutual Fund Investors**. Holch is also a Washington-based attorney whose firm, **McGuinness & Holch**, has done lobbying work for other industries in the past.

"If you are a buy-and-hold investor, it hurts your returns each year," Holch says.

Although the lower rate may seem untenable in the current climate, which includes a growing deficit and threats of an impending recession, Crowley remains optimistic that the capital gains issue will eventually be addressed. It affects 92 million Americans, many of them aging.

"Anyone who owns a mutual fund appreciates the unfairness of being taxed without selling your assets, particularly older folks sitting in a nursing home," he says. "It's an inequity we hope to address."

Cost basis reporting continues to haunt the ICI agenda, too. Since many companies already provide this data to investors, the ICI has resisted lawmakers' efforts to mandate such reporting.

"We want it done in a way the industry can live with," Crowley says. Fund companies argue that the cost of updating their accounting systems to supply the data would far outweigh whatever additional taxes the Treasury will collect from investors.

For investors, Roame agrees that while disclosure is great, some compromise is in order. "Remember, every rule you put in drives up the cost of investing," he says. Companies may absorb the cost of changing systems at first, but eventually, they will pass those costs on to investors, Roame says.

New issues in the most recent disclosure reflect increased attention overseas.

One example of an ICI-supported issue is Treasury Secretary Henry M. Paulson's diplomatic [efforts](#)<sup>2</sup> to open China to U.S. businesses. If successful, the effort would allow increased opportunities for U.S. companies to offer products and services in one of the world's fastest-growing markets. "That's an issue we've been spending some time on," Crowley says.

The ICI has also been explaining to legislators and interest groups why calls for divestiture in places such as the Sudan and Iran may be short-sighted. Although the idea might be popular with the public, legislators must be aware of what Crowley calls a "slippery slope."

"If we curtail investment there today, tomorrow it will be with respect to global warming. Mutual funds are meant to maximize shareholder value, not necessarily to broaden some more general policy agenda."

Issues that have disappeared from the ICI lobbying report during 2007 include calling for hedge fund advisors to register with the **Securities and Exchange Commission**. Likewise, the number of references to data security and identity protection have dwindled.

But out of sight does not necessarily mean out of mind, Crowley says.

"These things will come back around," he says. Likewise, he speculates that the next few filings may reflect lobbying surrounding the role of credit rating agencies or mortgage brokers in American markets, depending on the political will on the Hill.

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