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Salim Ramji
Chief Executive Officer
Vanguard

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Moderator: Christine Benz,
Director, Personal Finance and Retirement Planning
Morningstar
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Introduction

Chair Robert K. Steel

Well, good afternoon everyone, and welcome to the 842nd meeting of The Economic Club of New York. My name is Bob Steel, Partner and Vice Chair at Perella Weinberg and Chairman of our Club. And let me say, welcome to all of you today and thanks for coming out on a beautiful afternoon. Let me also, as we begin, extend a warm welcome to the students that are joining us from Columbia Business School, made possible through a member's generous donation. Let me also recognize the members of the 2026 Class of New York Economic Club Fellows – a group of diverse, young, next-generation business leaders – who are also joining us telephonically today.

As you may know, The Economic Club of New York is proud to stand, as we believe, one of the nation's leading nonpartisan platforms for discussion on economic, social, and political matters. For more than a century, the Club has hosted over 1,000 prominent guest speakers contributing to our tradition of excellence. That tradition of excellence has gotten another lift today with our special guest today, Salim Ramji, who is coming to speak to us.

Salim is today the Chief Executive Officer of Vanguard and a member of the firm's Board of Directors. He there leads a global team focused on helping investors succeed, which I think you'll hear today is the theme and the culture from day one of Vanguard. Salim spent his career working to make investing more accessible and help individuals prepare for a secure financial future.

Prior to joining Vanguard just two years ago, he held a range of senior leadership positions throughout three decades across investments, capital markets, and wealth management. Salim holds a bachelor's degree in economics and politics from the University of Toronto, as well as a master's degree in law from Cambridge University. He's also a CFA charter holder.

Today, our format is Salim is going to come to the stage, and we're honored to have Christine Benz as our moderator. Christine is the Director of Personal Finance and Retirement Planning at Morningstar and host of The Long View Podcast. We believe this is a perfect combination to have a rich conversation covering important issues. We're going to begin now and will promptly end at 1:00 as is our custom. And just a reminder that today's conversation is on the record with media here, both in the room and online. With that, please join me in welcoming Salim and Christine to the stage.

Conversation with Salim Ramji

CHRISTINE BENZ: Salim, thank you.

SALIM RAMJI: Well, thanks to everyone for being here and spending your lunch hour with me and Christine.

CHRISTINE BENZ: It's great to see you. I wanted to say that we, I think first met, I'm part of the John C. Bogle Center for Financial Literacy, which is a group, not-for-profit set up in honor of Jack Bogle's great legacy in the industry, and you were our first Acting CEO to come to one of our conferences, so we are very appreciative.

SALIM RAMJI: The Bogleheads, as they are commonly and more affectionately known, it's a really, I can't think of any company that I know of that has a group like the Bogleheads which are sort of independent of Vanguard but still dedicated to the investment philosophies that Bogle espoused. And so it was a great conference, a great meeting and I think it keeps us in check for the long term as well.

CHRISTINE BENZ: So I thought we could start with the current market environment. We've obviously had some volatility. Jason Zweig wrote over the weekend that it hasn't been out of line with historical norms. In fact, it hasn't been all that high but it feels high. I wanted to talk about individual investors in that context because we sometimes hear about them, I would say, maybe caricatured as sort of chaos agents in times like this where they're capitulating, they're selling in downdrafts. You have a sort of a contrarian point of view, which is that they are stabilizing forces. Can you talk about that?

SALIM RAMJI: Yes, I think the caricature, like in a sense it's exciting, newsworthy events. But if you look at the 170 million people in this country who invest, or even if you look at the 56 million-odd who invest with Vanguard, the truth is really quite different. That by and large most investors invest for the long term. Most of them are diversified. Most of them kind of hold steady in times of market volatility. And thankfully, most of them also pay attention to costs.

And so if you just take a look at, you know, even, whether you look at the past couple of months with the conflict in Iran, whether you look at this time last year with kind of tariffs and the market volatility that came after that, that at least, and I'll cite Vanguard data here, around 90% of our investors stayed the course. They bought and hold. And that's really how, I think, our investment principles have come through over the long term, but their actions were very much in line with that.

The 10% that did trade were buyers over sellers by a factor of 4 to 1. And so just in terms of the resilience, even if you just take that one data point, that the resilience of underlying individual investors, particularly in times of market volatility is really strong. Two-thirds of the 170 million Americans who invest, invest through mutual funds and ETFs and most of those will invest in a target date fund or in an index ETF and so they're well diversified. Costs across the industry, I mean our costs just in the past ten years have come down by half. Costs for others in the industry, while they're still too high, but have also come down by about a quarter over that period.

So when you really zoom out, what you see is a system that has more people investing, that has more people investing in a diversified way, that has more people kind of in a buy and hold mindset, and has more people focused on costs. We think that's a really good thing for the system. I think it was what makes American investors exceptional relative to any other country that I visit and where we have a presence. We're not without our problems, and we should talk about speculation and gambling and kind of the excesses that are building in the system.

But when you look out at the broader picture, the broader picture is much, much healthier, much, much more resilient, and I think individual investors are a great stabilizing force. And if they adhere to some of those kind of straightforward elements, I think that would be the ultimate smart money in the system.

CHRISTINE BENZ: So can we talk about why individual investors do tend to be so stable? Is that structural in that so much of the flows are coming in, in the context of 401(k)s? What are Vanguard's leading hypotheses on why individual investors tend to be such a stabilizing force?

SALIM RAMJI: Yes, so some of it is structural and some of it are things like 401(k) plans. And particularly if you look at, you know, post-2006 and some of the regulations that allowed for default and auto enrollment, those have been a really positive stabilizing force for investors and for the industry.

And if you just look at data from, we're about to publish this – it's part of our annual survey we do about American retirees, American investors – that the average investor at Vanguard upped their 401(k) contribution levels to 12%. Just an extraordinarily high number. It's up from about 10% ten years ago. But 12% is kind of the level that some of the most, I think it's around the same level as Australia, and in Australia, that's mandatory. And in our case, it's voluntary. Forty-five percent of retirees have contributed more in the past year. The other 45% have stayed the same. So 401(k) has been a really important stabilizing force to get people invested early, to get people invested in a diversified way, paying attention to costs and the like.

And I think the other factor is less about 401(k), but it's just the ability to help investors access investing more easily. You know when Vanguard was founded 50-plus years ago, less than 10% of people invested. Investing was a luxury good. Today we have 170 million people investing and, you know, it's firms like ours and others that have just made investing much more within the reach of mainstream investors. It's been an additive piece. And I have to also say, indexing has been a really good way in which to help more and more people invest in a good and productive way.

So you have all of these forces working together, whether it's 401(k) and the regulations around the DC system, whether you look at market forces in terms of different platforms like Vanguard, just making it easier to be able to invest, and investors today kind of have offerings and have products that allow them to invest in a simple and easy way. And I think all of those things are really leading towards greater, not just stability, like stability is an important thing for the system, but the most important thing is that people have a better outcome by the time they're 55, 65, 75 or whenever their goals are set. And I think that there are some really important attributes that have been built up over the past 20, 30 years which give them the pathway to do that.

There's a big "but" to that, which we can get to later, which is kind of around the speculative excess and some of the other things. But I just wanted to sort of paint the broader picture and paint some of the reasons why most people are, I think, doing the right thing or trying to do the right thing for their long-term outcome more and more of the time.

CHRISTINE BENZ: Okay. So I do want to delve into some of those individual investor issues, but I wanted to stick with kind of the macro capital markets for a bit longer. And I wanted to discuss specifically some of the consternation around the role of the Big Three index providers – BlackRock, State Street, Vanguard – in terms of our capital markets and how they're working. I think there was some question, especially as we've just seen this avalanche of flows into cap-weighted indexing, which is agnostic in terms of market valuations whether that has the potential to cause bubbles. Can you talk about that question?

SALIM RAMJI: Yes, and some of it, and it's useful to be here with the Economic Club because it's, you know, some of these issues are not new. I've found, kind of in our own archives, in the Vanguard archives, clips from 1977, so a couple of years after we were formed, about this same argument. The 1977 clip came from an active manager who was charging kind of 1% or 2% and kind of underperforming. And so you can kind of see this argument, it's not a new argument.

But if you go to the underlying substance of it, index funds comprise about 20% of U.S. equity markets today. It's a lot more than it did in 1977. But the price of equities, as everyone here knows, is not determined by the long-term holder. The price of equities is determined by the marginal trade. And if you kind of take that pretty well-established orthodoxy that price is set by kind of trading activity rather than the long-term holder, and you look at what index investing trading activity is, it's about 1% of trading activity across the system.

That's because the index investor tends to hold on to their investment for about 13 years. The typical active manager tends to hold on to their investments for less than three years. The typical alternative manager or hedge funds, you can measure it in days or even seconds in terms of their average holding period. That underlying turnover rate for index managers isn't going to change over any long-term period. And so from an economic and from a capital markets point of view, we don't really see any good empirical evidence that suggests that the answer is meaningfully different today than it was ten years ago or will be ten years from now.

I think that the other type of criticism that is sometimes, or consternation as you said, that it's sometimes labeled, is less from an economic or capital markets point of view. It's from a corporate governance point of view. And in our archives, and you'll know this, Bogle wrote about this 20 years ago, about the growing, kind of influence of large asset managers. One of the things that we've been very clear about within Vanguard is that we're passive and we're proud of it. It's how we invest. It's how we vote the shares on behalf of the 56 million clients that we represent. I think it was about seven years ago where we had active sub-advisors, you know, the likes of Wellington and others. They both manage those sleeves of money and they vote the shares in accordance with their investment philosophy. But we really stick to kind of passivity in terms of how we vote the shares of the companies that the Vanguard funds and the underlying holders own.

And, you know, the other piece, and we just started this about two or three years ago, actually about three or four, three-ish years ago, which is that we made it available to

Vanguard Fund holders to be able to vote the shares of the companies that you all own. So now 22 million Vanguard fund holders, and we're going to continue to expand it, can vote the shares in our S&P 500 Fund, can vote the shares of more and more Vanguard funds that they own, and that's been kind of a great positive movement, I think, for capital markets, for corporate governance, as well as for, kind of our clients who really, who appreciate the offer and appreciate being asked, whether they avail themselves of it or not.

CHRISTINE BENZ: What have you seen in terms of the uptake from those individual investors?

SALIM RAMJI: You know, it was better than I thought. Because if you think about, the best data that I've seen, if you think about individual holders of securities, so if you hold a security of a large American company, on average you'll vote the shares about, it's about 32, 33% participation rate. So we sort of looked at that as the high-water mark. Once we launched this, what we're seeing on the Vanguard platform is 10% of eligible Vanguard fund holders are now availing themselves of this. That's way higher and way faster than I thought it would be when we first started. And even the 90% that aren't, appreciate being asked, appreciate the choice being in their hands.

And so we really see this as part of a, not just an offering and a way in which we can kind of, if you will, democratize, sort of the voting, just as we've done the same in the underlying investment, but I think it provides more voices in corporate governance. I think it provides more diverse voices. And most importantly, it unites the 56 million people who own the capital with the issuers of the capital, and we can act as a facilitator. We can act as a technology provider to make that easier and cheaper and more accessible. But it's been really positive and far more so than I think our initial projections had suggested.

CHRISTINE BENZ: Yes. I wanted to ask about something that has been maybe a little bit of a head-scratcher to people on the outside looking in which is that Vanguard, of course, is known for its cap-weighted index funds, but seems to be making a big push for active fixed income. So I'm wondering if you can talk about why the level of enthusiasm for active fixed income, what's driving it?

SALIM RAMJI: That's a great question. And you say a big push, you know, we started our fixed income capability, including our active fixed income capability 40 years ago, and so we've been doing this for a very long time. As we looked out at the marketplace, whether it was more people retiring and needing more fixed income in their portfolios, whether it was just people a long way away from retirement and just wanted a bit of a buffer for their equities, there was a greater need that we saw from clients around fixed income.

When we looked at the underlying fixed income market and the active and indexed fixed income market, active managers were charging way too much. Our active management, we charge less than 10 basis points for it. The market price for active management is about 51 basis points. You know, Bogle had this saying that you'll know well, which is in investing you get what you don't pay for.

And what was really interesting about that saying was that it really took the industry orthodoxy, that quality in price were these different things and turned it upside down. There is no false dichotomy to it. If I give you an example just based off of Vanguard's track record over the past ten years in active fixed income, 100% of our active fixed income is priced in the cheapest decile. That, I suspect, most people in this room would expect. Ninety-two percent of our active fixed income outperforms peers and outperforms benchmarks over any 10-year period you choose to look at.

And the reason why is that if you're an active fixed income manager and you have a 50 basis point headwind to overcome on day one, you're going to be taking bigger risks and bigger swings on what you think, like long-term rates, medium-term rates, kind of credit outlooks will be. If you've got a 9-basis point headwind to overcome, you can be much more disciplined about security selection, about risk management, and over long periods of time you can outperform.

And so when we look at the fixed income market which is twice the size of the equity market and your firm coined the term the Vanguard Effect, which we proudly embrace, but what it said to us is that there are opportunities in fixed income for our clients, to give them a better deal. There are opportunities in the marketplace to more consistently outperform. And this is a part of the market that I look at probably as some of my predecessors might have looked at the equity markets in the same way.

So we think there's tremendous opportunity to serve clients better. We think there's tremendous opportunity to take some of the, kind of industry surplus, if you will, and make that a client surplus. And it's really, you know, one of the most, sort of near-term pieces of the Vanguard Effect that we're seeing. And the beauty of it is we've been doing it for 40 years. The investments are really good. And part of the push you'll see is that we're getting a little bit more vocal about marketing, a little bit more vocal with clients around it because we think it adheres to the same principles that were true 40 years ago, but just there's a need in the marketplace today.

CHRISTINE BENZ: So where does that leave passive fixed income investing? I remember talking to Jack Bogle about that over the years, and he would equivocate a little bit about the setup with passive fixed income investing where you're effectively giving your biggest weightings to the biggest borrowers. Can you talk about that, passive fixed income, is that a viable strategy?

SALIM RAMJI: Yes, indexed fixed income still has a really important role in a portfolio. And when you look, for example, factor decomposition in equities, which is pronounced and well researched over, you know, since 1993 and beyond, the factor effects in fixed income are even greater than they are in equities. And so you can use indexed fixed income to really be able to make determinations and the right portfolio weighting in terms of duration, in terms of credit, in terms of geography, as to where you want to invest.

And given the complexity of the fixed income market, you know, there's like 30,000 CUSIPs in the global lag, given the underlying inefficiencies in the fixed income market, we see greater opportunities to outperform the index than we've seen, for example, in equities. So there's a role for both. I just think that in the active part of it, this whole notion of you need to pay more to get more, which is totally incorrect empirically, has just led to kind of a greater sort of amount of surplus that's accumulated in the industry than needs to be the case.

And so the index pieces, we think, have a really important role in the portfolio, but the active pieces can deliver a little bit more than that as long as you keep the fees low. And I think that's sort of at least how we look at the portfolio kind of building blocks across the fixed income sleeves of portfolios.

CHRISTINE BENZ: I wanted to ask about the opportunity set for investors, specifically for retail investors. The number of public companies has dropped by about half since 1996. And we've been hearing that investors, some investors might be shut out of the full opportunity set that has been available to specifically higher net worth investors. Can you talk about that, the role of private companies, whether individual investors should have access to them? What's your take on that question?

SALIM RAMJI: Yes, I buy some of the argument, but not all of it, from 1996. You're correct. But if you look at the investable universe, not just the universe of companies, public markets are still like 90, 92% of the investable universe. Private equity is, you know, 8%. If you had invested in 1996 in an S&P 500 fund your return today would be like about 10X, 11X, not even counting reinvested dividends or other kind of elements like that.

So public markets are thriving. Public markets are still 92% of where all investable assets exist. And over long periods of time, public markets have proven that they can be able to deliver kind of strong long-term returns. I think with all of that said, so I'm a big believer in the growth, the role that public markets play. I think they're flourishing, kind of here in the United States. And as I said, every time I kind of leave the United States, and whether it's in Europe or Australia or other markets in which we have a presence, people will point to the United States as a flourishing public market investing culture that they want to emulate.

And to your question about private markets, you know, we have a phrase within Vanguard that I learned a couple of years ago, which is “does it load?” And “what does it load?” means is that we look on the efficient frontier relative to, let’s take a 60/40 all index portfolio, and you can look at it at different allocations. And the question of “does it load?”, whether it’s a private equity offering, whether it’s a new bond offering, whether it’s a different type of index offering, is does this enhance the investor’s return or risk profile on the efficient frontier? And if it doesn’t, we stop. And if it does, we explore a little bit more deeply.

Private markets load. Now, it’s subject to a whole series of caveats. You’ve got to be really good at manager selection; the dispersion of private market managers is 4X what it is in public markets. You’ve got to be disciplined about the allocations. You’ve got to be very focused on the time horizon that the investor has. It does have to genuinely be longer term. And you’ve got to pay really close attention to fees. The fees in private markets are too high. But I think there are opportunities if we can help address each of those four things, and probably 100 other things that we don’t have time to cover. But let’s just take each of those four things as the top level to be able to give people access to a source of return that can be additive to a portfolio.

CHRISTINE BENZ: So what would that look like in terms of Vanguard's lineup? I think the thing that has been discussed, especially in the wake of this Department of Labor proposal, that would make it easier for retirement plans to offer private securities and other alternatives. Would it be potentially a component of a target, of a Vanguard target date fund, or what sort of framework would you see that private offering showing up?

SALIM RAMJI: Showing up in. The 401(k) is the one that, you're right, has been talked about the most. The thing that we look at, and this is a good example of, like the 60/40 or the target date portfolio, our target date fund, which is an all index, kind of asset allocation fund with a very low fee, is the most popular offering in the target date arena today. And there's a reason for that. It's inexpensive. It's diversified. It's easy to understand, and most Americans saving and investment every day prefer it. That's not going to change. And we don't have any changes, kind of in mind to that underlying design because I think most people, as well as the employers, as well as the consultants around it have made their views known.

But there are other segments in the 401(k) arena. You know, we announced earlier this year in partnership with TIAA a guaranteed income option, which was embedded in our target date fund. Because we saw that some people wanted to have guaranteed income options embedded within that structure. We thought the typical annuity that you have to go get, kind of outside the 401(k) was far too expensive, typically had a commission on it, and you had to make a kind of in-the-moment choice. And so we thought there was a better way to do that which was embedded in that structure.

The thing we're exploring, and we don't have definitive answers today but we're exploring it, is could there be a role for private markets as part of the new offering? And can we figure out manager selection, asset allocation, the right time horizons for clients, and most importantly, fees. Because ultimately if we're going to do something in private markets, we're going to do so because we think it's in the investor's interest, because we think that you can have better longer-term returns if you have a 20, 30-year horizon to invest. And if we can't figure that out, we won't.

But we want to approach it with the same enthusiasm, if you will, that we're approaching fixed income, with the same enthusiasm that we're approaching other segments of the market where we can see a possibility for investors, but we also see the need to change things, to make it better for investors, to be able to create something that can be better for investors than exists today. That's the exploration. Where it'll go, you know, we'll find out based on how our diligence goes across each of those four and many other factors.

CHRISTINE BENZ: Okay, can you tip Vanguard's hand in relation to that Department of Labor proposal related to alternatives being on the 401(k) menu provided the plan sponsors go through the due diligence process that's recommended?

SALIM RAMJI: I mean they've come with their proposal. We'll comment on the proposal. The main thing we're doing at the moment is just talking to clients, talking to consultants about what do they want, what do they need. And that was the genesis even before the Department of Labor's capture in the Secure 2.0 Act around the guaranteed income provision that we built in. And if the regulations allow for it, and most importantly if our clients really want to do it, and we can figure out terms with third parties that make it in our clients' interest, then I think that there's something there.

But at the same time, as I said before, I think the 401(k) system more broadly, it's a marvelous system, and it has served 100 million-plus Americans really well by being able to give diversified low cost, kind of target date funds. That's not going to change. But are there two or three other segments that want guaranteed income or want kind of a longer term, kind of private allocation, and is it in their interest to do so if we can negotiate kind of appropriate terms? Maybe.

In the case of guaranteed income, yes. But that was a three-plus year journey before we got comfortable with that. And we're, you know, kind of a year into our, year, year and a half into our thinking on private markets.

CHRISTINE BENZ: Okay, so you referenced the retiree population and how that guaranteed income sleeve of the target date series is designed to help them through retirement decumulation. So let's drill in a little bit to individual investors starting with that soon-to-retire, already retired cohort. Just two in five Americans are on track to meet their spending needs in retirement. Would you say that's a retirement crisis? Do you think the 401(k) system has worked pretty well, but the data suggests some people really will not have enough to replace their working incomes when they've retired?

SALIM RAMJI: The 401(k) system, I think, has worked well, but it does have things that need to be improved. I think if you think about your number, Christine, you know, the two out of five Americans, one piece is access. So if you work at a large company, if you work for a government entity, chances are you've got a 401(k) plan. Chances are it's pretty good, and you tend to be kind of better off. If you're working for a small business, if you're a freelance worker, you don't have access to a 401(k) in the same way that you or I kind of might, or many people in this room might.

The problem of access we see as something which is solvable. It's something where technology, where regulation, and just the ability to really focus in on kind of the underlying kind of cost and access, that can increase it from two out of five Americans to three out of five Americans feeling more prepared if we're able to solve for that part of the marketplace.

I think that there are other structural things that are true in the 401(k) system but aren't true in other parts of the retirement system. So one of the reasons why people are better prepared than they would have been ten years ago or twenty years ago is the default in the auto enrollment and those aspects. When you look at things like the IRA market, people don't have those same protections or those same guardrails that are built into place.

So at least just based on Vanguard's analysis, when people roll over, 28% of the time they're rolling over into cash. And they're rolling over into cash, not because they're making a deliberate decision to roll over into cash, but that's the default. Typically they figure that out over seven years, and typically they lose about $130,000 of retirement savings as a result.

For most firms, they make most of their money off of people keeping money in cash and paying them 40 basis points. We think there's an opportunity, not just to move people out of cash and into target date or target date investing, but also to be able to create positive incentives through defaults and through other things to be able to help people invest in the IRA system just as they have in the DC system.

But that's a really good example, to my mind, of you've got a system with guardrails in DC, and you've got a system that could benefit from a few more guardrails, even if it's something as simple as a default kind of setting into an equity fund or a target date fund so that people can be able to save and retire even when they roll out of a company or even when they have multiple employers and multiple IRA plans. And that's kind of, as I said, it's a bigger part of the system today. I think the IRA market is about $13 trillion to about $10, $10.5 trillion in DC. And so, as a result, there are ways, even just in the kind of, if you will, the adjacencies to the system where we can make the system better.

And so things like that, whether it's defaults in IRA, whether it's coming up with better solutions through technology for small business employees, those can be additive to the system, and you can start to really make a dent on some of those numbers, just in the retirement system itself, let alone things that can be made better outside of the retirement system.

CHRISTINE BENZ: So a couple of follow-ups. You mentioned the access problem for a lot of workers. Without getting too in the weeds, what would be Vanguard's leading solutions to address the fact that you've got a lot of workers without the opportunity to contribute to an employer-provided plan?

SALIM RAMJI: Yes, we have a small business 401(k) offering. The challenge, not just for us but for other companies that are building these, is it's really hard to access small businesses. It's expensive to sign them up, to get them kind of built into the plans. There are a number of investments we're making in technology to make kind of all of that easier. And I think another facet to it, and this is something we can talk more about, is that we're building in kind of AI-enabled advice or AI-enabled guidance just to help people migrate through the complexity of plans.

Whether you're in a small business or whether you're in a mid-sized or larger business, like the thinking that an individual has to go through in terms of do I put more money in my 401(k)? Do I max out on my IRA? How much do I put in my HSA? How much do I put in, now coming soon, you know, things like the Trump Accounts? These are sort of mundane but complicated decisions. And you may not need a whole financial plan and a financial advisor and all the apparatus around that but you need guidance to be able to do that.

And if you're at a large company or a mid-sized company, there's a lot of service that you can get, either digitally or in person, through that. If you're at a small company, that's really hard to access. But I think some of the capabilities that we're building around, let me call it AI-related guidance, can be scaled whether you work at a company with three employees or you work at a company with 30,000 employees.

And I think that's part of the solution. It's just using technology to make it easier, kind of irrespective of the size of your employer, which cannot just help access, but can also help people think about, like how do they juggle different parts of their financial lives to make the best and affordable investment decisions that are right for them.

CHRISTINE BENZ: So you mentioned the power of nudges in the context of 401(k) and the lack of guardrails, nudges for people saving outside of their company retirement plans, that if I sit in cash for a long time there's no one that's going to tap me on the shoulder and push me into a target date fund. So how would that work from a practical standpoint to help give people more guardrails to help them make smart choices, especially given that, as you say, you have entrenched providers who are completely happy to have people paying 40 basis points on cash accounts?

SALIM RAMJI: I think some of it is already in the works, right? So take the, there's a piece which will come out that we're publishing – we publish it annually – around how America saves. So if you look at the example of hardship withdrawals, okay, hardship withdrawals were at about 2%, even during the pandemic. Last year, they came to about 5%, or, sorry, in 2024, they were at about 5%. Last year, they were about 6%. So they're creeping up.

When you look at the reasons why someone is taking out a hardship withdrawal, other than kind of the obvious, given the titling of it, in many cases it's around $1,000 or less, which is what they need. And they need it either for a medical expense, they need it to kind of pay rent, they need it for a particular reason. And they often don't have access to an emergency savings account. Some of the recent legislation and regulation allowed for that. So that's now a guardrail that's put in place.

We think people can be offered a much better rate so that they're not just keeping money in an emergency savings account but they're earning 3%, you know, 3½% kind of as a result of that. And so that's a, if you will, a market force or putting it in a form of price competition, if you will, to be able to incent people to save and incent people to do the right thing.

The other piece, which is again a straightforward one but a really important one when you look at the magnitude of the economic impact, right, so the $130,000 is a lot of money particularly when you look at some of the retirement readiness shortfalls, which can be achieved if you just have better defaults going into IRAs just like you do in 401(k)s. So some of these aren't massively complicated, massively expensive, massively kind of difficult decisions, but what we will say is that they are impactful.

And part of the reason we published this survey every year, it both talks about the health of the system and the like, but it also talks about how the system can improve. And I think things like emergency savings, things like defaults in IRAs, are both examples that are very practical and very available either to the industry or the industry working with policymakers. They can just help people invest and save better, reduce the stress, and improve the outcomes.

CHRISTINE BENZ: I wanted to ask about some Vanguard research that showed that 57% of low and moderate-income Americans are investing outside of their 401(k)s. I would imagine most of that is IRA money that comes over from leaving an employer. But can you talk about some of the choices that those low and moderate-income people are making in terms of the investments that they're selecting. Are they in a lot of individual stocks, crypto, etc.? Or what do you see from the data?

SALIM RAMJI: When they're coming to Vanguard and will tend to have, if you will, a positive selection bias, that people will come to us because there's something about our client ownership, something about our investment philosophy that is attractive to them, they tend to do more of the things that you'd expect, right? More index oriented, ETF oriented. When you extract to the marketplace as a whole, I would say a worrying thing is 70% are investing just in stocks, about four out of ten are investing in options.

CHRISTINE BENZ: So individual stocks.

SALIM RAMJI: So individual stocks and options. Now experience is a good way to get an education. I used to, when I first got into markets, I invested in individual stocks, and I played around with options. And then the dot.com bubble burst. I read my first book by

Jack Bogle. I thought it made sense, and I bought a Vanguard fund. And when you look at the underlying power of diversification, diversification last year beats day traders. Diversification over any period you'd care to look at beats active management. Diversification, even if you go back to Warren Buffett's 2016 shareholder letter, it beats hedge funds. So diversification works. And yes, we can educate people. We can kind of reissue lots of Jack's books. We can do a lot of things. But sometimes people kind of need to learn by their own experiences.

The good thing I take from that is that people are engaging and investing in the market. So they're starting, and that's a positive thing. The thing we need to work on is to make sure that they're investing in a way which helps them build long–term financial success because the best advantage people have when they first come into the market, particularly the younger age or particularly at lower income cohorts, is that they have the power of compounding. And if we can help them invest in kind of a good long-term diversified, low-cost way for longer, that, I think, is a great enabler for upward mobility in terms of people's wealth and in terms of people's financial security. And so we need to shorten the time it takes to be able to kind of move from investing in the market to investing in the market in a way which helps long-term outcomes and helps long-term financial security.

CHRISTINE BENZ: I'm sure everyone in the room has observed how the distinction between investing and speculation has gotten a little blurry. Especially for some investors, I think some of the platforms will even let you dabble in the prediction markets alongside your investments. What's Vanguard's take on that more speculative activity and how to help investors avoid their own worst impulses with respect to some of those speculative activities?

SALIM RAMJI: I think out of all the things about the market that we've talked about so far, that's probably the one that worries me the most. About a third of Gen Z either has invested in prediction markets or is expressing consideration in order to do so, or sports betting. Now, at some level, like if someone wants to do that with their fund money as entertainment, like okay. The problem is when you ask why someone is doing that, and this is true of 75% of Gen Z, sorry, it's true of 80% of Gen Z, 75% of Millennials, they're doing it because they think this is a fast path to financial security. That's a terrible thing.

And when you look at the reason why they believe that is I think that you have too many platforms out there that are focused on engagement and not focused on outcomes. You have too many platforms out there that are looking at gamification, and they're borrowing from people who do online slot machines or online kind of gambling. You have too many people out there, too many people in the industry out there that are representing speculation as a form of empowerment. And really what we see that as is a form of financial exploitation.

Because when you really look at the best way to get long-term results for people, it goes back to the same principles – diversification, keep costs low, stay invested for a long time, and be disciplined about your investing. And I think the tension you have in the system right now is that you have a lot of people who have an incentive, because that's their business model, to try and tell people the opposite.

Obviously, we're a vocal force in being able to draw the distinction between investing and gambling, but I think it's a really important distinction. It's a distinction that's existed for decades in the regulatory system. Investors are regulated by securities law. Gambling is kind of covered by gambling regulations. But as those lines get blurrier, I think it can do, certainly harm for the investors, but also harm to faith in the system. Because as people discover that, you know, in gambling activities, the house always wins. The person kind of rarely wins.

And as people see that there is a better system and a better way to do it, I think it's incumbent upon us as participants in the industry to be able to be more vocal about that and be able to be more vocal about the distinctions between gambling and investing. And I think that could have a really corrosive effect, I think, for all of the positive elements about capital markets, about retail investors that we talked about. So that's something we're, I would say, concerned about. It's something that we're continuing to turn up, kind of our volume on, but it's something, if I may, I do think newer technologies can help. And we can talk a little bit about AI-oriented advice, but I do think that there are some ways in which to educate and help people in a much more scaled way than, you know, sending out copies of Bogle's books.

CHRISTINE BENZ: So let's do talk about AI because I know Vanguard has studied some of the advice being dispensed by various AI engines. Maybe you can talk about what you see as the positive effects of that as well as some of the concerning aspects of that.

SALIM RAMJI: Yes, and it's a great, probably of the questions we're exploring, like this one is kind of at or near the top of the list. The first reason why is that advice today in the United States is a luxury good. You know, one out of ten, one out of eight Americans, depending on how you look at it, gets access to advice. If you've got $1 million, everybody wants to be your advisor. You've got a couple hundred thousand dollars, like most Americans do, you're either subjected to really high commissions or nobody wants to be your advisor and so there's a problem of access, kind of around advice.

The second piece is that about half of Americans today are using kind of AI to get some modicum of financial guidance, financial advice. It could be a mundane question. How much can I put in my IRA? It could be a more involved question. The answers typically are better than the speculative activities that I talked about before. So there is some improvement in the system. The problems are, and these are things that our clients are telling us, AI can be a little bit too eager to please. And so, as a result, it has its own kind of engagement, kind of aspect. Clients are telling us they want something that's trusted, something that's objective. They don't necessarily believe, how helpful their kind of AI agent might be, it does that.

The second piece is that it's not grounded in kind of long-term financial, in investment success. And so they're looking for that particular person, and so they're looking for something more personalized. And third, even for people who are using AI, what they're telling us is, oh, but I'd never give it my actual data. It seems like a sound decision. And so there's something that people are looking for which is more trusted, more personalized, more private than what exists today, and we're working on that.

You know, just last month we launched an AI-oriented program called Expert Insights to 100,000 advisors that we serve, typically RAAs. We've been using it inside with Vanguard's own advisors, which allows in an AI-driven way to be able to build better portfolios, to re-balance portfolios, and to be able to look at, is the portfolio that's right for you different than the portfolio that's right for me? It's a month old but it's had a lot of positive kind of, if you will, feedback from financial advisors that we work with all across the country.

We are building in, we're coming out with an updated website later this year. I think I previewed it with you. But it will have AI capabilities built into it, which can just give people more guidance around things, to help them migrate or help them be able to kind of determine some of the things that I talked about before.

And then the third piece that we're working on, which I'm probably the most excited about of any of these three, is that we have a digital advice capability that we've had for several years now. It does well. It helps people with as little as $100 to invest and save. But we're building in a range of AI-driven advice capabilities into that. Because the way I look at the opportunity for us and for our clients is that advice today is just as rarified as investing was 50 years ago. And if we can be able to help people, whether they have $100 or $1,000 or $100,000, to be able to get better advice to make better decisions, I think it's a great way in which to battle some of the speculative excess which is kind of brewing in different parts. But I think more importantly it helps us make advice just as accessible as an index fund is today.

And I think that's the opportunity that we have in front of us. Of course, we'll do it at low cost. Of course, we'll do it with high quality. Of course, we'll look at it in ways which weren't as possible even two or three years ago without AI. But each of those dimensions, whether it's making it available to advisors we work with, making it available to advisors who work at Vanguard, or just helping clients who may not want a full kind of advisory relationship but just want better kind of answers to various questions they have, to be able to access that in a real-time way. I think that's one of the more exciting developments that we have underway.

CHRISTINE BENZ: So one interesting thing when we look at the data, Michael Kitces has done this periodic survey where he looks at advisor fees, how financial advisor fees have stayed very high. They've been very stable relative to asset management fees which have just gone down, down, down. So what do you think would ever, kind of dislodge the way things have gone?

SALIM RAMJI: What we charge for a person, we'll charge 30 basis points. If you want it digitally, it's about 15 basis points. But if you think about the capabilities that AI can bring, done in a regulated responsible, kind of all the pieces that I said, I think they're transformative, not just for how many people can get advice, but what the appropriate price for advice should be and what it can be. And if you take a step back, kind of overall about some of the things that we've talked about, you know, if the fixed income, if the active fixed income market priced the same, the Vanguard prices for active fixed income, there would be about $25 billion a year of consumer surplus. Money that investors would benefit from, kind of just from that price competition.

If you did the same thing in savings, which we talked about, the benefit is 10X. Advice is about the same. And so if you add all that up, even 51 years after our founding and everything that we've done and talked about and practiced in terms of pricing and price competition, there's about $600 billion of investor surplus every year that can be captured through greater price competition, kind of in markets like advice and markets like fixed income, and in markets like savings. And as we know from fixed income, quality and price aren't opposites. They actually often work in lockstep with each other.

And I think the advent of AI in the provision of advice can make that paradigm also true, that people can get good advice, whether it's through a person or enabling kind of advisors, or whether it's direct, and they could be able to expect to get it at a lower and lower fee. And if you think about the things that keep my 20,000 crew members, all of us excited to come into work kind of every day, it's the prospect of being able to do that just as we've been able to do that in areas like equities and index funds and the like for the past 50 years.

There's just a tremendous opportunity, I think, to help drive fees lower all across the system, help get participation rates up, and using technologies that help educate people in a way that they want to be educated, using technologies that exist today that didn't exist even just a few years ago.

CHRISTINE BENZ: Last question for you. I was talking to a colleague who is retiring in a couple of months, and he was asking me about the wisdom of rolling all of his assets over to a single firm, whether Fidelity, Vanguard. What are the risks that I would call out of doing that, of having all of his life savings with a single provider? How does Vanguard think about protecting client interests from that standpoint?

SALIM RAMJI: He was worried about, like cyber and other types of events.

CHRISTINE BENZ: Yes, that as these, you know, the fraudsters seem to be getting better and better. How does Vanguard keep its eye on that ball?

SALIM RAMJI: Look, we have a whole team within Vanguard that's comprised of people whose backgrounds are in national security, from large banks, from technology firms that are constantly looking at, figuring out ways to stay ahead of threat actors, stay ahead of kind of anyone looking to bring harm to our clients. I feel really good about that after I've spent time with them. But the threat actors keep getting better every single day as well and so even if you feel good in one moment, the next moment you're battling against, in some cases, states, in some cases kind of organized fraudsters. And so we're always investing to stay kind of ahead of those moments.

The underlying reality of most people, they've been expanding the number of different providers they work with. It was about, you know, 2.8, it's now about 4, and that's also true of Vanguard investors. And many of our Vanguard investors invest with us directly. Many of them invest through an RAA, but have a Vanguard kind of ETF or a Vanguard fund as part of it. And many of them will kind of use our target date offerings, whether it's on our platform or on somebody else's platform.

And so the general human behavior of our 56 million investors is that they typically have more than one kind of underlying relationship. But at the same time we are investing and protecting and making sure that for all clients who invest with Vanguard we've got state-of-the-art cyber and other defenses through our technology team.

CHRISTINE BENZ: Thank you so much.

SALIM RAMJI: All right. I see Bob coming up to, it's coming up to 1:00.

CHAIR ROBERT K. STEEL: Well, listen, it's hard to stop, but I think it's been a great conversation. Let me ask all of you, invite you to join me in thanking both of our speakers for a wonderful conversation today. (Applause)

I think, too, as we move to lunch, you can see on the back of your program, for those of you in the room, we have an exciting group of people coming to speak to us as we move into the summer. There are lots of good people. I'm not going to go through the highlight film, but it's all terrific, and we're excited about that.

I think, too, as we close and move to lunch, we also want to thank all the members of the Centennial Society. As you know, this is a group of 450 of our members who have decided to make additional financial commitments to the Club. And their recognition and their contributions allow us to provide things like the Fellows and free access to students and things like that in addition to ensuring that we have a strong financial foundation to the Club. And so we're appreciate for all of that.

Thanks to all of you for joining us today. For those of you that will be leaving us, from the video, thanks for joining. And for those of you in the room, please enjoy your lunch. Thank you again.