



Hearing Statement  
The American Council of Life Insurers  
Before the  
U.S. Senate Committee on Banking, Housing, & Urban Development  
Subcommittee on Economic Policy

“The Current State of Retirement Security in the United States”

April 5, 2017

On behalf of the American Council of Life Insurers (ACLI), I am pleased to submit this statement for the record regarding the current state of retirement security in the United States. We thank Chairman Tom Cotton (R-AR) and Ranking Member Heidi Heitkamp (D-ND) for holding this important hearing. In this statement, we will highlight the current state of our retirement savings system and recommend legislative enhancements that will build upon its success. I hope the Subcommittee considers these changes to improve upon the current state of retirement security in the U.S.

The American Council of Life Insurers is a Washington, D.C.-based trade association with approximately 290 member companies operating in the United States and abroad. ACLI advocates in state, federal, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 94 percent of industry assets, 93 percent of life insurance premiums, and 97 percent of annuity considerations in the United States.

ACLI member companies offer insurance contracts and investment products and services to employment-based retirement plans (including defined benefit pension plans, 401(k), SIMPLE, SEP, 403(b), and 457(b) plans) and to individuals (through individual retirement accounts (IRAs) and annuities). Our members also are employer sponsors of retirement plans for their employees. As service and product providers, as well as employer sponsors, life insurers believe that savings for retirement, managing assets throughout retirement, and utilizing financial protection products are all critical to Americans’ retirement income and financial security.

To provide context on the extent to which the life insurance industry helps Americans prepare for retirement, in 2015 alone, American families received \$328 billion in annuity payments, \$119 billion in life insurance death benefits, \$18 billion in disability income insurance benefits, and \$9.6 billion in long-term care insurance benefits. Through products like these that are offered by life insurance companies, Americans are able to plan, save and guarantee those savings for a secure retirement.

### **Current State of Our Retirement Savings System**

Our retirement system is based on: employment-based retirement plans; personal savings (including IRAs, individual annuities, and regular savings and investment accounts); and Social Security. All three are important and play a vital role in retirement security.

Current tax incentives for retirement successfully help millions of American families accumulate savings and improve their retirement security. Last year, the Bureau of Labor Statistics reported that nearly 80 percent of full-time civilian workers have access to a retirement plan, and more than 80 percent of full-time civilian workers participate in a plan. All workers have access to individual annuities and IRAs.

As workers move from job to job, it is not uncommon for them to have more than one retirement account. A recent survey of one million employees who have both a workplace savings plan, such as a 401(k) or 403(b), and an IRA found that the average combined balance was \$225,600 at the end of 2015 for all workers, of all ages, in the sample.<sup>1</sup> Combined balances rose by age group from \$29,834 for those aged 25 to 29 and to \$529,669 for those aged 70 to 75.<sup>2</sup>

The 401(k) was introduced in the early 1980s, thus not enough time has elapsed for workers to retire after working a full 40- to 45-year career in the 401(k) system. However, a study found that accumulations through 401(k) plans, including rollover IRA balances, can generate significant income for retirees across all income groups over a full working life.<sup>3</sup> The model includes Social Security income in its calculation. Employees can build up significant accumulations when they have continuous 401(k) coverage, even when equity returns are assumed to be lower.<sup>4</sup> The model<sup>5</sup> found that those with continuous coverage would reach replacement rates (how much a retiree will earn in retirement compared to the income he earned at the end of his employment) at retirement between 51 percent for the lowest-earning one-fourth (or quartile) of the population,<sup>6</sup> and 69 percent for the highest income quartile.<sup>7</sup> When combined with estimated Social Security payments, these accumulations could provide a replacement of 103 percent for the lowest-earning quartile and between 83 and 86 percent for the other quartiles.<sup>8</sup>

Given the ability of the current retirement savings system to enable workers to achieve retirement security, we recommend the following legislative enhancements that will build upon its success. ACLI supports a uniform federal approach to reforms and these recommendations will focus on proposals that will enhance pension coverage and worker participation, and facilitate lifetime income for these workers in retirement.

### **Increasing Access to and Expanding Coverage for Workplace Savings**

Although a sizeable majority of full-time workers with access to a workplace plan are covered by workplace plans, more could be done to expand access and coverage. Many small businesses do not offer a retirement savings plan for a number of reasons, but not for a lack of marketplace product offerings. Slightly less than 50% of all workers employed by businesses with fewer than 50 workers have access to a workplace retirement plan. Access is much higher for workers at larger employers. The uncertainty of revenues is the leading reason given by small businesses for not offering a plan,

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<sup>1</sup> Fidelity First Quarter Retirement Savings Analysis, Press Release, April 29, 2016

<sup>2</sup> Id.

<sup>3</sup> Sarah Holden and Jack VanDerhei, "Can 401(k) Accumulations Generate Significant Income for Future Retirees?" Investment Company Institute Perspective, Vo. 8, No. 8, November 2002.

<sup>4</sup> Id.

<sup>5</sup> The model includes 401(k) balances at employers and rollover IRA balances. The EBRI/ICI study focused on participants who were in their late 20's in 2000 and who would reach age 65 sometime between 2035 and 2039.

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> Id.

while cost, regulatory and administrative burdens, and lack of employee demand are other impediments cited by small business.

One policy ACLI supports is the expansion of private multiple employer plans or “open MEPs.” Open MEPs can encourage and facilitate adoption by employers that are not prepared to sponsor their own stand-alone retirement plan.<sup>9</sup> MEPs can be an important tool in reducing the costs and administrative burdens to small employers. Under a MEP, many businesses can join together to achieve economies of scale and advantages with respect to plan administration and advisory services, making plans much more affordable and effectively managed, and thereby encouraging more businesses to offer their employees retirement plans.

In addition to reforming and expanding MEPs, ACLI supports:

- Starter 401(k)s: Small employers should be encouraged to offer workplace savings opportunities with simple administrative rules and no required employer contributions.<sup>10</sup>
- Voluntary Auto-IRA: Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduct IRA. “Auto-IRA” sponsors should receive the same level of protection and state wage law preemption offered to employers sponsoring “Auto-401(k)s.”<sup>11</sup>
- SIMPLE IRA: SIMPLE IRAs should be made more appealing to small businesses. Permitting a higher level of employer contribution and improving rollover rules could make the plans more valuable to employees.<sup>12</sup>

Small employers that provide payroll deduction IRAs should be eligible for a start-up cost credit to offset the employer’s initial plan formation and administration expenses.

Lastly, in 2015, the “my Retirement Account” became available nationally. Small businesses without retirement plans may offer employees an opportunity to participate in the new “myRA,” a Roth IRA backed by Treasury bonds. Offered by the U.S. Treasury, myRA provides the option to save for retirement with contributions as little as \$5 a month.<sup>13</sup> The myRA program provides another useful tool to encourage people to start saving for retirement. ACLI has encouraged the Department of the Treasury to include the availability of lifetime income features in any program Treasury may adopt regarding the transfer of myRA accounts to private sector providers upon reaching the program’s transfer thresholds.

### **Increasing Participation in Workplace Savings**

Regardless of their financial circumstance, over 50 percent of Americans don’t believe they know how much to save for retirement.<sup>14</sup> However, the more money an individual contributes to their retirement plan, whether workplace-offered or individual IRA, the more likely they are to be financially secure.<sup>15</sup> Fortunately, innovation in plan design is a key reason 401(k) plans have been able to reach more

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<sup>9</sup> See S. 3471, the Retirement Enhancement and Savings Act of 2016, sponsored by Sen. Hatch (R-UT) and H.R. 854, the Retirement Security for American Workers Act of 2017, cosponsored by Reps. Buchanan (R-FL) and Neal (D-MA).

<sup>10</sup> See S. 3471.

<sup>11</sup> See H.R. 4067, the SAVE Act of 2015, co-sponsored by Reps. Kind (D-WI) and Reichert (R-WA)

<sup>12</sup> Id.

<sup>13</sup> <https://myra.gov>

<sup>14</sup> ACLI tabulations of Strategic Business Insights, Consumer Financial Decisions, MacroMonitor Data, 2016-17.

<sup>15</sup> Id.

workers and improve the level of retirement benefits over time. One such innovation is automatic enrollment to get more workers into plans. Another change, auto-escalation, gradually increases the share of pay contributed each pay period. A joint study quantifies just how helpful auto-enrollment and auto-escalation can be in improving overall participation and total retirement savings.<sup>16</sup> The study uses a projection model to show the increases in replacement rates (how much a retiree will earn in retirement compared to the income he earned at the end of his employment) that can result from these plan design innovations. Legislation had been introduced that would improve the current rules on auto-enrollment and auto escalation.<sup>17</sup>

### **Importance of Guaranteed Lifetime Income to Ensure Retirement Income Security**

Just as important as saving for retirement is making the savings last throughout retirement. Regardless of their financial stability, nearly three-quarters of Americans are concerned about having adequate income during retirement.<sup>18</sup> Guaranteed lifetime income can help ensure that individuals have adequate income at advanced ages, even if they live to age 100 and beyond. By providing insurance to support one's standard of living, guaranteed lifetime income is an important tool for retirement planning. Guaranteed lifetime income has the potential to provide a higher sustainable level of income than can be achieved with other financial assets. Eighty-two percent of annuity owners think that annuities are an important source of retirement security and make them feel more comfortable in times of financial uncertainty.<sup>19</sup>

As the first wave of the baby boomer generation reaches retirement age, it is important to educate American workers about the need to consider augmenting Social Security with additional amounts of guaranteed lifetime income. Annuities and other guaranteed lifetime income solutions provide insurance protection against longevity risk by pooling that risk and distributing it among the retiree population, shifting the risk of outliving one's savings to a life insurer. Only state regulated and licensed life insurance companies can provide guaranteed lifetime income.

ACLI urges policymakers to adopt the following policies to promote the awareness and availability of lifetime income:

*Illustrate Individual Account Balances as Guaranteed Lifetime Income* - Legislation has been introduced that would help individuals think of their retirement plan savings as not only a lump sum balance, but also as a source of guaranteed lifetime income.<sup>20</sup> With this additional income information on a benefit statement, coupled with the Social Security income statement, workers can see how much monthly income they could potentially receive in retirement. Workers can better decide whether to increase their savings, adjust their 401(k) investments, or reconsider their retirement date, if necessary, to assure the quality of life they expect in retirement.

*Improve the Annuity Selection Rule for Individual Account Plans* - The current Department of Labor safe harbor rule regarding the duties of a fiduciary in selecting an annuity provider for an individual account plan require the fiduciary, typically the employer, to make a determination as to whether "an annuity provider is financially able to make all future payments under an annuity contract." The regulation should be revised, as this standard is difficult to meet in part because it is hard to know

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<sup>16</sup> Sarah Holden and Jack VanDerhei, The Influence of Automatic-Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement, *Investment Company Institute Perspective*, Vol. 11 No. 2, July 2005.

<sup>17</sup> See S. 3471.

<sup>18</sup> The 2016-17 MacroMonitor Data.

<sup>19</sup> The Committee of Annuity Insurers, Survey of Owners of Individual Annuity Contracts (The Gallup Organization and Mathew Greenwald & Associates, 2013). (survey of 1,008 owners of non-qualified annuity contracts, conducted on behalf of the Committee of Annuity Insurers).

<sup>20</sup> See S. 3471.

how to draw this conclusion. While it is part of a “safe harbor,” the requirement makes it hard to use and it is not a requirement of selection of other financial protection products. Changes must be made to these rules to make it easier for employers to meet their duties while at the same time ensuring a prudent selection.

The safe harbor should be improved to provide greater certainty for plan sponsors and fiduciaries when selecting guaranteed lifetime income products.<sup>21</sup> The rule should be clear that it applies to all guaranteed income products, including payout annuities with a fixed term. In considering an insurer’s financial capability, a fiduciary may rely on specific representations from the insurer regarding its status in relation to state insurance regulation and enforcement. It is important to recognize the unique role of state insurance departments in oversight of life insurance companies including the imposition of NAIC uniform rules for the establishment of reserves, the valuation of assets and liabilities, risk-based capital requirements, and required capital. The insurance department conducts routine reviews of the financial strength of each insurer and its ability to meet its commitments and the insurance department has a number of powers to intervene and protect policyholders. This system is a factor in the consideration of the quality of an annuity provider.

*Promote Lifetime Income Portability* – The portability rules should be expanded to maintain participants’ access to lifetime income benefits. When the termination of a plan’s annuity contract would lead to the loss of access on the part of plan participants to the contract’s guaranteed lifetime benefits, participants need a means to maintain access to these benefits. Legislation has been introduced that would enhance the portability of guaranteed lifetime income products.<sup>22</sup> ACLI supports legislation and regulation that would permit the distribution of a participant’s insured plan benefit when a guaranteed lifetime income product is no longer offered by the plan. The rules should permit the distribution to be made via a qualified plan distributed annuity contract or a direct rollover to an IRA or other eligible retirement plan.

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Over the long run, the nation will benefit when individuals address their long-term financial security needs today, because they will be less likely to rely on public assistance tomorrow. Government policies that encourage prudent behavior, such as long-term savings for retirement, should not only be maintained, they should be enhanced. Therefore, ACLI continues to urge policy-makers to support and build on the current retirement savings system.

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<sup>21</sup> Id.

<sup>22</sup> Id.