



Statement for the Record

Submitted to the

United States Senate  
Committee on Finance

“Challenges in the Retirement System”

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On Behalf of

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The American Council of Life Insurers (ACLI) is pleased to submit this statement for the record on “Challenges in the Retirement System.” The ACLI thanks Chairman Chuck Grassley (R-IA) and Ranking Member Ron Wyden (D-OR) for holding this important hearing. This statement will highlight the successes of the current retirement system, challenges that workers and retirees face and public policy proposals supported by ACLI that would enhance and build upon the successes of the retirement system.

## **THE AMERICAN COUNCIL OF LIFE INSURERS**

The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. Financial security is our core business, and retirement security for all Americans is a critical mission. We protect 90 million American families with financial products that reduce risk and increase financial security, including life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, dental and vision benefits and other supplemental benefits. As society and work changes, we are committed to solutions that protect all Americans, regardless of where and how they work, their stage in life, or the economic status of their household. Americans are living longer, and financial security into retirement is a big challenge facing our country. We help people retire with security, with more products, availability, accessibility, and affordability for all.

ACLI members represent 95 percent of industry assets in the United States. Through a well-crafted partnership of the private solutions ACLI members provide, and public solutions that are necessary, we believe the benefits of financial security can be made available to all Americans. Accordingly, 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). ACLI members are also employer sponsors of retirement plans for their employees. As service and product providers, as well as employer plan sponsors, life insurers believe that adequately and consistently saving for retirement, effectively managing assets throughout retirement and utilizing appropriate financial protection products are all critical to Americans’ retirement and financial security.

In 2017, American families received \$364 billion in payments from annuities, \$126 billion in payments from life insurance, \$19 billion in disability income insurance benefits and \$11 billion in long-term care insurance benefits. Americans are facing with significant financial security challenges, and the insurance industry is a vitally important part of how Americans are able to plan, save and guarantee themselves a secure retirement. No other industry provides Americans with the level of financial guarantees provided by the insurance industry.

## **THE RETIREMENT SYSTEM IN AMERICA**

The retirement system for private-sector workers in America builds upon the contributions made to Social Security and is enhanced by employment-based retirement plans, IRAs, individual annuities, and other investments. These private-sector savings programs play a vital role in retirement security for millions of Americans. Current tax incentives, for pensions and retirement savings, encourage employers to provide and maintain employment-based plans and have enabled millions of American families to accumulate savings, thereby improving their retirement security. According to the Bureau of Labor Statistics, more than 80 percent of full-time civilian workers have access to a retirement plan through their employer, and of these workers, 80 percent participate in a workplace plan. Yet, more can be done to ensure that everyone who can afford to save for retirement is saving for retirement.

While the current combination of Social Security and employment-based and private retirement arrangements has successfully demonstrated the ability of workers to attain retirement security, several legislative enhancements, including those with a focus on financial literacy, can build upon this success. ACLI supports the committee's commitment to improving retirement savings for all Americans.

## CHALLENGES FACING RETIREMENT SAVERS

Closing the retirement savings gap is a big need – and it's becoming an even bigger need as society evolves. While workplace retirement plans are incredibly effective at helping people save, impediments still exist that prevent too many Americans from maximizing this important savings tool. For some, understanding the value of saving for retirement and the underlying concepts can prove to be daunting. Some of the mystery derives from the shift over time from defined benefit plans to defined contribution retirement plans. With greater choice and flexibility, plan participants must set personal savings goals, make informed investment decisions and plan for income throughout retirement.

Numerous segments of the population seem to have greater barriers to savings. While more than 80 percent of full-time workers have access to a retirement plan in the workplace, only 40 percent of part-time workers enjoy access to this benefit, in particular people who work for small employers and gig economy workers.<sup>1</sup> According to Betterment's study, *Gig Economy and the Future of Retirement*, nearly 40 percent of respondents feel unprepared to save enough to maintain their lifestyle during retirement.<sup>2</sup>

Additionally, millennials tend to be less prepared for retirement than earlier generations at the same stage in life with 40 percent having no dedicated retirement savings. Of those with dedicated retirement savings, a third have saved \$15,000 or less.<sup>3</sup> Many are burdened with student loan debt and may delay saving for retirement. This segment may also face challenges related to access to a retirement savings plan in the workplace. According to Pew Charitable Trust's report, *Retirement Plan Access and Participation Across Generations*, younger workers are less likely than older workers to be offered retirement plans by their employers. And when they are, younger workers are less likely to participate.<sup>4</sup>

Adult caregivers are also in a perplexing situation. Many financially assist their children, while an estimated 9.7 million adult children over the age of 50 care for their parents as well.<sup>5</sup> Women act nearly twice as often as men as caregivers for their adult parents, which can have a significant impact on their retirement savings. The total individual amount of lost wages due to women leaving the labor force early because of caregiving responsibilities equals \$142,693. The estimated impact of caregiving on their lost Social Security benefits is \$131,351.<sup>6</sup> Additionally, woman caregivers, due to their caregiving responsibilities, are much less likely to participate in an employer's 401(k)

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<sup>1</sup> Bureau of Labor Statistics, Employee Benefit Survey,

<https://www.bls.gov/ncs/ebs/benefits/2018/ownership/civilian/table02a.htm>

<sup>2</sup> Betterment, *Gig Economy and the Future of Retirement*, [https://www.betterment.com/wp-content/uploads/2018/05/The-Gig-Economy-Freelancing-and-Retirement-Betterment-Survey-2018\\_edited.pdf](https://www.betterment.com/wp-content/uploads/2018/05/The-Gig-Economy-Freelancing-and-Retirement-Betterment-Survey-2018_edited.pdf)

<sup>3</sup> ACLI analysis of Strategic Business Insights 2016-2017 MacroMonitor Household Survey.

<sup>4</sup> The Pew Charitable Trust, *Retirement Plan Access and Participation Across Generations*. [https://www.pewtrusts.org/-/media/assets/2017/02/ret\\_retirement\\_plan\\_access\\_and\\_participation\\_across\\_generations.pdf](https://www.pewtrusts.org/-/media/assets/2017/02/ret_retirement_plan_access_and_participation_across_generations.pdf)

<sup>5</sup> MetLife, Mature Market Institute, *The MetLife Study of Caregiving Costs to Working Caregivers*, <https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf>

<sup>6</sup> Id.

program. Among single women 50 years old and older, the chance of participating in a 401(k) plan is 35.8 percent for caregivers, compared to 43.6 percent for non-caregivers.<sup>7</sup>

Furthermore, mothers of young children, due to their absence in the labor force during child-rearing years, also experience gaps in opportunities to contribute to a workplace retirement plan. According to the Bureau of Labor Statistics, the labor force participation of mothers of young children was only 62 percent, compared to 80 percent of mothers with older children.<sup>8</sup>

## POTENTIAL SOLUTIONS TO ADDRESS CHALLENGES IN SAVING FOR RETIREMENT

Effective public policy proposals, in addition to action by plan sponsors and providers, can address the challenges discussed above and help Americans save for a secure retirement. Public policy should seek to increase access to essential financial protections, retirement savings and guaranteed retirement income products. Through the Retirement Enhancement and Savings Act (RESA) ([S. 972 / H.R. 1007](#)), Congress has an opportunity to enact comprehensive legislation that will help more people retire with peace of mind — increasing the availability, accessibility and affordability of retirement security products for all Americans. It represents sound retirement policy that has strong bipartisan and bicameral support. RESA is the bedrock of innovative and thoughtful proposals that have the potential to increase retirement savings for Americans. It is imperative the Senate Finance Committee take action and work to advance RESA as soon as possible.

Furthermore, policy proposals that seek to increase retirement savings that ACLI supports include:

### 1. Increased Access and Participation Through Small Plan Coverage

A sizable majority of full-time workers have access to a retirement plan in the workplace. Still, more could be done to expand access and coverage. While access is high for workers at larger employers, roughly 47 percent of all workers employed by businesses with fewer than 50 workers have access to a workplace retirement plan.<sup>9</sup> Many small businesses do not offer a retirement savings plan, but not for a lack of access to a marketplace of product offerings. The uncertainty of revenue is the leading reason given by small businesses for not offering a plan, while cost, regulatory and administrative burdens and lack of employee demand are other impediments.

Proposed legislation seeks to remedy this access challenge by facilitating retirement plan creation among small employers.<sup>10</sup> The expansion of private-sector sponsored multiple employer plans, also known as “open MEPs” or “pooled employer plans,” can encourage and facilitate adoption by employers that are not prepared to sponsor their own stand-alone retirement plan. Open MEPs can be an important tool in reducing the costs and administrative burdens to small employers. Under an open MEP, many businesses can join together to achieve economies of scale and advantages with respect to plan administration and investment services, making plans much more affordable and efficiently maintained. This would encourage more businesses to offer their employees retirement plans. Additionally, eliminating the “one bad apple” rule, which punishes all participating employers if any one of the participating employers violates a qualification requirement, is vital. ACLI estimates

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<sup>7</sup> Christian E. Weller and Michele E. Tolson, *Do Unpaid Caregivers Save Less for Retirement?*, <https://jor.iiijournals.com/content/6/2/61/tab-article-info>

<sup>8</sup> Bureau of Labor Statistics, *Employment Characteristics Of Families — 2017*, [https://www.bls.gov/news.release/archives/fameee\\_04192018.pdf](https://www.bls.gov/news.release/archives/fameee_04192018.pdf)

<sup>9</sup> Bureau of Labor Statistics, National Compensation Survey, <https://www.bls.gov/ncs/>

<sup>10</sup> [Retirement Security Act of 2019](#), introduced in the 116<sup>th</sup> Congress by Senators Collins (R-ME) and Hassan (D-NH). [H.R. 854](#), introduced in the 115<sup>th</sup> Congress by Representatives Buchanan (R-FL) and Kind (D-WI); [S. 3219](#), introduced in the 115<sup>th</sup> Congress by Senators Cotton (R-AR), Young (R-IN), Heitkamp (D-ND) and Booker (D-NJ)

open MEPs will lead to an additional 700,000 workers with access to workplace retirement savings.<sup>11</sup>

While the Department of Labor (DOL) has issued a rulemaking proposal relating to “Associate Retirement Plans,” DOL’s proposal falls far short of a real and viable way to expand small employer retirement plan coverage. DOL has a unique opportunity to allow for the creation of open MEPs in its current rulemaking project by removing the imposition of a “commonality” requirement which is unsupported by law. DOL’s continued and incorrect interpretation of the law serves as an impediment to expanding coverage for employees of small employers.

Undoubtedly, the open MEPs model will make a considerable impact upon retirement plan coverage, but perhaps the biggest effect could be achieved through an employer requirement approach. Based on the BLS data, ACLI estimates that the possible impact of an employer retirement plan requirement proposal, similar to House Ways and Means Chairman Richard Neal’s Automatic Retirement Act of 2017, could increase access to an employer-sponsored DC retirement plan by an additional 30 million workers, a 38 percent increase in access among private sector workers.<sup>12</sup> Assuming comparable take-up rates for those currently with access, the additional increase in access would lead to 22 million additional workers participating in a DC retirement plan, a 39 percent increase over current participation figures. For this reason, ACLI supports this approach, as a profound concept that could potentially change the landscape of retirement savings and improve the financial well-being of millions of Americans.

In addition to reforming and expanding open MEPs, other proposals to improve small business plan access include:

- Increased Start Up Credit: Under current law, small employers (up to 100 employees) that adopt a new retirement plan are entitled to an annual tax credit for three years equal to 50 percent of the costs of starting up the plan, up to a cap on the annual credit of \$500. Pending legislation seeks to increase the credit and provide an additional credit for employers who automatically enroll employees in their plan.<sup>13</sup>
- Auto-IRA: Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduction IRA. Employers that elect to sponsor an “Auto-IRA” should receive the same level of protection and state wage law pre-emption provided to employers sponsoring “Auto-401(k)s.”<sup>14</sup>
- SIMPLE IRA Improvement: SIMPLE IRAs should be made more appealing to small businesses. Permitting a higher level of employer contributions and improving rollover rules could make the plans more valuable to employees.<sup>15</sup>

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<sup>11</sup> ACLI Estimate based on Joint Committee on Tax, JCX-88-16: [“Estimated Revenue Effects Of The Chairman’s Modification Of The “Retirement Enhancement And Savings Act Of 2016.” Scheduled For Markup By The Committee On Finance On September 21, 2016.”](#)

<sup>12</sup> [H.R. 4523](#), introduced in the 115<sup>th</sup> Congress by Representative Neal (D-MA)

<sup>13</sup> The Retirement Security and Savings Act of 2019, introduced in the 116<sup>th</sup> Congress by Senators Portman (R-OH) and Cardin (D-MD); [S. 1383](#), introduced in the 115<sup>th</sup> Congress by Senators Collins (R-ME) and Nelson (D-FL). [H.R. 4637](#), introduced in the 115<sup>th</sup> Congress by Representatives Kind (D-WI) and Reichert (R-WA); [H.R. 3902](#), introduced in the 115<sup>th</sup> Congress by Representatives Bishop (R-UT) and Neal (D-MA)

<sup>14</sup> [SIMPLE Plan Modernization Act](#), in the 116<sup>th</sup> Congress introduced by Senators Collins (R-ME) and Warner (D-VA). [H.R. 4637](#), the SAVE Act of 2017, introduced in the 115<sup>th</sup> Congress by Reps. Kind (D-WI) and Reichert (R-WA)

<sup>15</sup> [Retirement Security Act of 2019, \(S. 321\)](#), introduced in the 116<sup>th</sup> Congress by Senators Collins (R-ME) and Hassan (D-NH); [S. 2526](#), Introduced in the 115<sup>th</sup> Congress by Senators Hatch (R-UT) and Wyden (D-OR). [H.R. 4637](#), introduced in the

- **Automatic Escalation Cap Removal:** Under the current nondiscrimination safe harbor for automatic enrollment and automatic escalation, a retirement plan may not automatically enroll or escalate employees beyond a contribution rate that exceeds 10 percent of pay. The 10 percent limit has been widely criticized as unnecessarily restrictive and an impediment to encouraging plan participants to save more for retirement. Legislative efforts should focus on removal of this arbitrary cap.<sup>16</sup>

## 2. Facilitating Plan Participant Access to Lifetime Income Options

Many workers do not have access to an annuity option within their employer-provided plan. Annuities are the only financial product in the marketplace that guarantee income for life. To offer annuities in a 401(k) plan, employers are required to make a determination as to whether “an annuity provider is financially able to make all future payments under an annuity contract.” This standard has been difficult to meet in part because it is hard for an employer to know how to draw this conclusion and has been an impediment to a broader inclusion of annuities in defined contribution plans.

ACLI supports proposals which improve upon the current annuity provider selection safe harbor rule.<sup>17</sup> When considering an insurer’s financial capability, employers should be able to rely upon the work of state insurance commissioners with specific representations from the insurer regarding the plan’s status in relation to state insurance regulation and enforcement. Plan sponsors should not have to second-guess the determinations of state insurance departments concerning the ability of a licensed provider to satisfy its long-term financial obligations. By improving the current safe harbor provision, the legislation will mitigate employer concerns regarding selecting an annuity provider and encourage them to add an annuity option to their retirement plan offerings.

In addition to an improved annuity safe harbor regulation, participants would benefit from lifetime income portability protections. ACLI supports legislation and regulation that focuses on expanding the annuity product portability rules to maintain participants’ access to lifetime income benefits. Participants could confidently diversify their portfolio into an annuity vehicle, a key tenant to financial planning. 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, 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. Participants need the means to maintain access to these important benefits. ACLI supports legislative proposals that would enhance the portability of guaranteed lifetime income products.<sup>18</sup>

## 3. Additional Plan Innovations

Employers and plan providers, understanding the value of education in the workplace, have been working for decades to design and implement effective financial literacy programs that incentivize

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115<sup>th</sup> Congress by Representatives Kind (D-WI) and Reichert (R-WA), H.R. 5282, Representatives Kelly (R-PA) and Kind (D-WI)

<sup>16</sup> [S. 2526](#), Introduced in the 115<sup>th</sup> Congress by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 4637](#), introduced in the 115<sup>th</sup> Congress by Representatives Kind (D-WI) and Reichert (R-WA), H.R. 5282, Representatives Kelly (R-PA) and Kind (D-WI)

<sup>17</sup> [S. 2526](#), Introduced in the 115<sup>th</sup> Congress by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 1439](#), introduced in the 116<sup>th</sup> Congress by Representatives Blunt Rochester (D-DE) and Walberg (R-MI)

<sup>18</sup> [S. 2526](#), Introduced in the 115<sup>th</sup> Congress by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 3910](#), introduced in the 115<sup>th</sup> Congress by Representatives Neal (D-MA) and Bishop (R-UT)

employees to save for retirement. Employers recognize that financial strain on their employees can decrease productivity and increase stress. To combat this challenge, more employers are offering financial wellness programs that include investment and savings advice. The *Benefits and Beyond: Employer Perspectives on Financial Wellness*, a report from Prudential Financial Inc., found that the percentage of employers offering financial wellness programs rose from 20 percent in 2015 to 83 percent in 2017.<sup>19</sup> Additionally, employers offering one-on-one retirement plan investment advice rose by 14 percentage points to 55 percent in 2017.<sup>20</sup>

Employers have instituted other valuable mechanisms as well that aim to increase plan utilization and balances. Tools such as automatic enrollment, automatic escalation and employer matches have become invaluable to participants. Nearly 73 percent of employers now automatically enroll new participants, compared with 68 percent in 2014 and 52 percent in 2009. Additionally, 60 percent provide an auto-escalation feature, up from 54 percent in 2014.<sup>21</sup>

Creative policy approaches that would assist employees in saving for retirement are also under consideration. One legislative approach ACLI supports would enable employers to contribute a “match” to an employee’s 401(k) account in the amount that the employee is contributing to their student loans.<sup>22</sup> This would apply to 403(b) and SIMPLE plans as well. Another approach seeks to provide home health care workers with a path to save. As noted above, these workers may not have taxable income due to their caregiving duties. A current legislative proposal seeks to remedy this by allowing home health care workers to contribute to a plan or IRA by amending the Employee Retirement Income Security Act in order to allow “difficulty of care” payments as compensation when determining retirement continuation limitations.<sup>23</sup>

In addition to efforts undertaken by employers to increase financial literacy, legislative proposals supported by ACLI would leverage financial literacy to improve retirement savings by informing participants of their account balances through a lifetime income disclosure illustration.<sup>24</sup> These types of policy proposals 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. Coupled with their Social Security income statement, a lifetime income disclosure illustration on their benefit statement would let workers 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. Currently, federal workers have the benefit of such an illustration in the federal Thrift Savings Plan annual statement.

Additionally, as technology improves, so do the methods and practices for delivery of information. Policy efforts should focus on facilitating the most effective, efficient delivery practices for providing employees with information about their retirement benefits by making it easier for employers to

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<sup>19</sup> Prudential Financial Inc., *Benefits and Beyond: Employer Perspectives on Financial Wellness*

<https://www.prudential.com/media/managed/rp/32467.html>

<sup>20</sup> The Society for Human Resource Management. 2018 Employee Benefit Report. <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2018%20Employee%20Benefits%20Report.pdf>

<sup>21</sup> Willis Towers Watson, 2017 Defined Contribution Plan Survey, <https://globenewswire.com/news-release/2018/02/26/1387421/0/en/U-S-employers-enhancing-defined-contribution-retirement-plans-to-help-improve-workers-financial-security.html>

<sup>22</sup> S. 1428, introduced in the 116<sup>th</sup> Congress by Senators Wyden (D-OR), Cantwell (D-WA), Cardin (D-MD), Whitehouse (D-RI) and Brown (D-OH); the Retirement Security and Savings Act of 2019, introduced in the 116<sup>th</sup> Congress by Senators Portman (R-OH) and Cardin (D-MD);

<sup>23</sup> [S. 972](#), introduced in the 116<sup>th</sup> Congress by Senators Grassley (R-IA) and Wyden (D-OR); [H.R. 1994](#), introduced in the 116<sup>th</sup> Congress by Representatives Neal (D-MA), Brady (R-TX), Kind (D-WI) and Kelly (R-PA)

<sup>24</sup> [S. 868](#), introduced in the 115<sup>th</sup> Congress by Senators Isakson (R-GA) and Murphy (D-CT); [H.R. 2367](#), introduced in the 116<sup>th</sup> Congress by Representatives Pocan (D-WI), Budd (R-NC), Krishnamoorthi (D-IL), Suozzi (R-NY) and Meadows (R-NC)



communicate with employees electronically. Legislative proposals that support electronic delivery methods ensure retirement savers will have greater access to needed information and online tools to assist them as they save and plan to retire and allow employers to set electronic delivery as their default communication method.<sup>25</sup> By establishing important consumer protections, such as an employee's right to opt-out of electronic delivery at any time and receive paper statements at no direct cost coupled with a required annual paper notice that summarizes the various communications delivered over the year along with information about how to change the delivery method, participants are ensured they will receive plan material by a method of their choosing.

## CONCLUSION

Providing workers with greater access to employment-based retirement savings arrangements will help them better prepare for retirement. Many retirees can expect to live another 20-30 years or longer in retirement. In fact, the first generation of workers who largely have self-funded for retirement are nearing the age when they will start drawing down on their savings. They need to understand how to manage their savings to ensure it lasts their lifetime. Facilitating lifetime income solutions and communicating how retirement savings translate into a guaranteed monthly income benefit empowers and educates participants to make better decisions. Nearly all the public policy proposals detailed in this statement are included in RESA. They will improve the current retirement system and guarantee a financially secure retirement for millions of Americans. Through taking action on RESA, Congress has an opportunity to enact comprehensive legislation that will help more people retire with peace of mind — increasing the availability, accessibility and affordability of retirement security products for all Americans. ACLI continues to urge policymakers to support and make every effort to enhance the current retirement system. We and our members stand ready to assist the Congress in this worthwhile endeavor.

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<sup>25</sup> [S. 3795](#), introduced in the 115<sup>th</sup> Congress by Senators Brown (D-OH), Enzi (R-WY), Peters (D-MI), Portman (R-OH), Isakson (R-GA) and Jones (D-AL); [H.R. 4610](#), introduced in the 115<sup>th</sup> Congress by Representatives Polis (D-CO), Roe (R-TN), Kind (D-WI) and Kelly (R-PA)