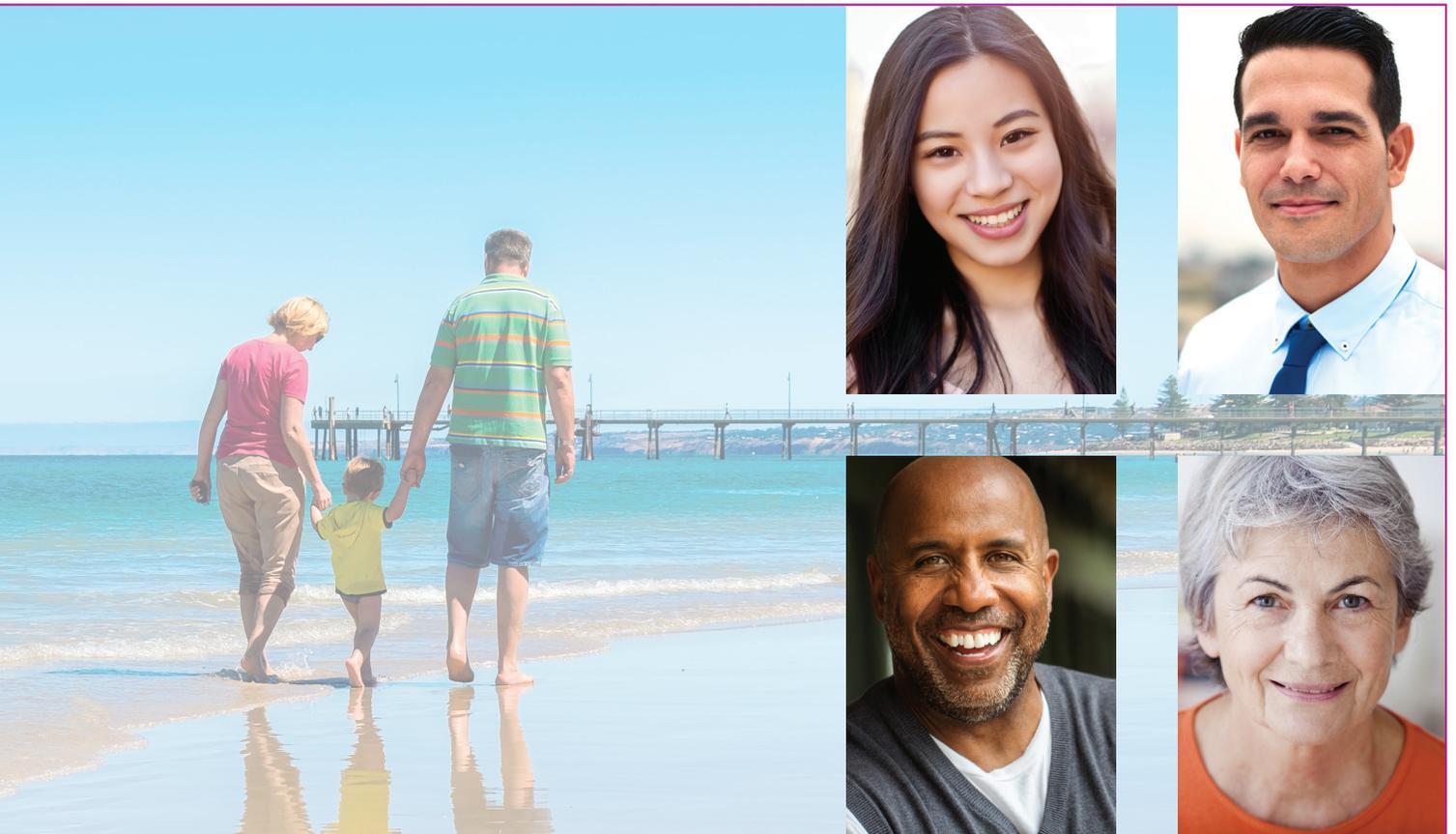
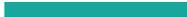

ASSESSING AMERICANS' FINANCIAL AND RETIREMENT SECURITY





OVERVIEW

Millions of American households are on track to a financially secure future as a result of making balanced and informed decisions about spending and saving, having a financial plan and working to build long-term savings, and taking steps to protect their families against life's many risks. The private sector has long partnered with families to provide financial guidance and solutions that help them reach their goals and achieve peace of mind.

Assessing Americans' Financial and Retirement Security, produced by the American Council of Life Insurers (ACLI), offers a comprehensive definition and assessment of households' financial and retirement security. The analysis explores four generations at different stages of life to provide a high-level snapshot of Americans' current state of financial and retirement security. Studying the financial habits of different households provides valuable insight into how Americans rely on both public and private sector solutions to prepare for the future.

Policymakers and thought leaders in the retirement security space should consider these findings when developing policy and consumer education efforts to help more families achieve financial and retirement security. This will prove valuable in assessing how new or current regulations, legislation, and external events may impact the overall financial well-being of American households. The ACLI analysis encourages the adoption of policies that make financial and retirement security solutions more easily available and accessible to all populations. These recommendations will help maintain the strength of private sector financial and retirement solutions and increase access to helpful products that can lead to a more financially secure future for Americans.

The ACLI analysis is unique in its comprehensive nature and specific focus on life stages and household financial behaviors and habits. It shows how Americans utilize the full set of private sector savings and protection solutions to achieve and maintain financial security and effectively prepare for retirement. In addition to considering retirement savings balances, the analysis takes into account annual contributions to retirement, emergency and other savings, effective management of home equity, credit cards, student loans, and consumer debt, financial and estate planning, participation in defined benefit plans, ownership of annuities to guarantee lifetime income, life and disability income insurance coverage, and preparation for long-term care. The extensive nature of this analysis creates a holistic and highly reliable measure of financial and retirement security.

EVERY DAY
BETWEEN NOW
AND THE YEAR
2030, 10,000
PEOPLE WILL
REACH AGE 65.

PRIVATE SECTOR FINANCIAL AND RETIREMENT SOLUTIONS

America's private sector, including life insurers, plays a key role in addressing the challenges facing American families. Seventy-five million American families rely on life insurers for financial security and peace of mind, now and in retirement. These companies, including ACLI's members, contribute proudly to the financial and retirement security of Americans through a broad range of products and services offered directly to individuals and through employer-sponsored plans, including life insurance, disability income insurance, long-term care insurance, annuities, mutual funds, qualified plan administration and record keeping.

Achieving financial and retirement security takes a conscious effort and educated decision-making by individuals to plan, save adequately, take appropriate investment risks, take financial precautions against the unexpected, and think ahead to retirement. The private sector has created myriad ways to help families with all of these decisions.

Data shows that while there is room for improvement, those who utilize private sector solutions are better prepared financially for the future. The role of the private sector will continue to increase in importance as individuals live longer and become more responsible for savings that will provide their income during retirement.

THE CHANGING RETIREMENT LANDSCAPE

When Congress enacted the Social Security Act of 1935, the age set for receiving benefits was based on average life expectancy at the time. Advances in technology and healthcare over the past 80 years have dramatically increased longevity. Every day between now and the year 2030, 10,000 people will reach age 65. On average, half of those who reach age 65 will live another 20 years.

The increase in life expectancy, along with the steady growth of the retirement-age population, has placed a financial strain on Social Security, heightening the importance of strong and sustainable private sector solutions. These factors have also limited the ability of employers to offer sustainable defined benefit retirement plans, which are linked directly to high retirement preparedness.

On an individual level, financial education and planning must keep pace to assure continued quality of life. On a societal level, public policy should increase access to financial guidance and solutions that aid with financial and retirement security planning, whether on an individual basis or through the workplace. Collaboration between policymakers and the private sector is key to increasing Americans' overall financial security.

THE SURVEY
POPULATION OF
APPROXIMATELY
4,500 HOUSEHOLDS
WAS SEGMENTED
INTO 13 COHORTS
THAT DIFFER BY
AGE, NUMBER OF
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OWNERSHIP, AND
WHETHER THE HEAD
OF HOUSEHOLD
IS RETIRED.

ACLI FINANCIAL AND RETIREMENT SECURITY ANALYSIS

The American Council of Life Insurers undertook a rigorous assessment of the financial and retirement security of American households using data from Strategic Business Insights' MacroMonitor Survey. The comprehensive analysis closely examines current financial behaviors and habits among various population groups (cohorts), recognizing that households have unique and ever-evolving characteristics and priorities. Financial factors that are critically important for a household at a particular point in time may be significantly more or less important as they progress through life. As needs change, households must constantly monitor and adapt their plans to ensure retirement security.

Cohorts, Indicators & Weighting

To account for varying life stages and circumstances, the survey population of approximately 4,500 households was segmented into 13 cohorts that differ by age, number of dependents, home ownership, and whether the head of household is retired.

A standard was defined to measure the degree of financial and retirement security of each cohort based on fixed-weight and variable-weight indicators. The appropriate assigned weighting for each cohort was determined by reasonable judgment and confirmed by various experts in the field of financial and retirement security, including academics, employer associations, consumer groups, research institutions, and independent sources consulted during the analysis.

This manner of assessment provides the most accurate gauge of the financial and retirement security of households, and offers clear identification of and insight into cohorts that differ most from the larger population.

Fixed-weight indicators reflect financial habits that are consistently important throughout an adult lifetime. This assessment includes the following fixed-weight indicators:



Creating and adhering to a financial plan



Maintaining sufficient liquid (emergency) savings



Practicing smart credit card habits

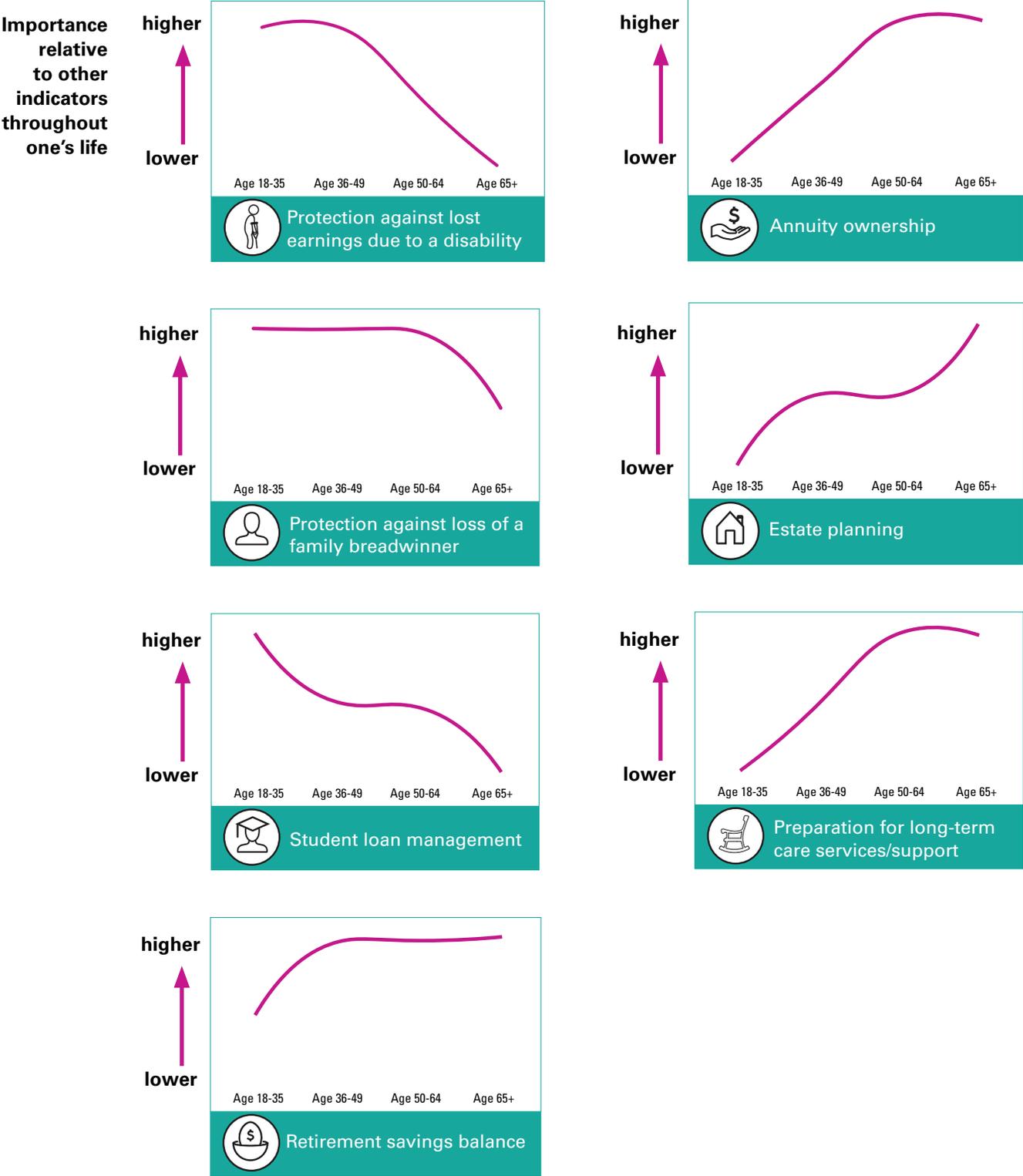


Maintaining appropriate home equity (if applicable)



Obtaining health insurance

Variable-weight indicators change in relative importance throughout one's life. In this assessment, the following variable-weight indicators were assigned weights that, in their simplest form, are approximated as illustrated below:



ANALYSIS FINDINGS

Achieving financial and retirement security is a holistic process of making informed trade-offs between spending and saving, building wealth over one's lifetime, and protecting against the risks that can derail those plans.

In general, the most financially secure American households practice good financial habits, have a financial plan, maintain an emergency fund, effectively manage risk, make smart use of debt, regularly save a portion of their earnings, and have a retirement income plan that includes guaranteed lifetime income they cannot outlive. These households consistently make good use of private sector financial and retirement solutions as strong and reliable support throughout their lives.

The assessment summarizes the preparedness level of households in three overarching categories:

- On track to a financially secure future
- Needs some improvement to be on track to a financially secure future
- Needs significant improvement to be on track to a financially secure future

Financial Security by Age Group

| Age | On Track | Needs Some Improvement | Needs Significant Improvement |
|----------------------------------|------------|------------------------|-------------------------------|
| 21-34 | 29% | 29% | 42% |
| 35-49 | 33% | 25% | 41% |
| 50 and Over (not retired) | 47% | 15% | 38% |
| All Retired Households | 65% | 13% | 22% |
| Entire Population | 45% | 20% | 35% |

May not add up to 100 due to rounding.

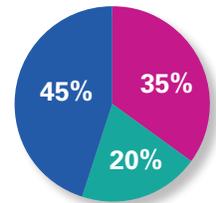
KEY FINDINGS

The ACLI analysis finds that the majority of U.S. households are practicing good financial behaviors and utilizing the correct products and tools to ensure their financial security, or can be on track to become financially secure with modest changes to their current behaviors.

65 percent of U.S. households are on track or nearly on track to be financially secure.

- **45 percent** of U.S. households are financially secure and on track for a secure retirement.
- **20 percent** need to take some modest actions to be financially secure.
- **35 percent** of Americans need to significantly improve their financial security.

A significant finding of the analysis was that small, consistent actions by households can dramatically improve their financial and retirement security in a matter of years.



Households with modest incomes can be financially secure.

Smart behaviors and habits practiced consistently over time and use of key private sector savings solutions allow individuals at all income levels to become financially secure. While income is a strong contributor to a households' financial and retirement security, a high income alone does not guarantee financial security.

- **25 percent** of the most financially secure households **earn \$50,000 or less.**
- **25 percent** of the least financially secure households **earn \$72,000 or more.**

Higher education does not guarantee financial security.

Education is most often a prudent investment in one's earnings power. However, the lack of an undergraduate degree—or even high school diploma—has not stopped millions of Americans from achieving financial security. While education is positively correlated with financial and retirement security, higher education is not a requirement for and does not guarantee positive financial habits or positive results.

- Of financially secure households, **more than one in six did not pursue education beyond high school.**
- Among the least financially secure households, 27 percent hold at least an undergraduate degree and **six percent have a master's degree or higher.**



Employees with access to employer-sponsored workplace retirement savings accounts are more likely to save for retirement.

Many employers offer retirement savings accounts as an employment benefit or incentive. According to the Bureau of Labor Statistics, 80 percent of full-time workers have access to an employer-sponsored defined contribution plan, and 80 percent of those with access choose to participate in the plan. The ACLI analysis shows that such programs positively contribute to retirement security.

- **Employees are likely to contribute a greater amount when employers offer auto-enrollment with opt-outs,** with a median \$4,000 annual employee contribution versus \$3,000 when auto-enrollment is not offered.
- **Employees are likely to contribute a greater amount when employers offer a 'match' to contributions,** with a median \$5,000 employee contribution.

Nearly half of all Americans agree they need “expert help in retirement planning.”

Accessibility to financial professionals remains important. While financially secure households are twice as likely to feel confident they can meet their long-term financial goals, insecurity prevails across all types of households when it comes to retirement planning.

- **More than half of households felt uncertain about how much to save for retirement**, highlighting the need for increased consumer education on the issue.
- **44 percent of financially secure households use a financial professional to help them plan for retirement**, versus only 16 percent of households in need of significant improvement.

Products that guarantee lifetime income give Americans more confidence in retirement.

Annuities are products that guarantee lifetime income. They help households build savings for retirement and convert those savings into income that cannot be outlived. Annuities provide income security and peace of mind for families.

- **More than two-thirds of households worry about having adequate income during retirement**, underscoring the need for products that guarantee lifetime income.
- **Among households aged 50+ who are most financially secure, more than a quarter own an annuity.**



Households that consistently protect against risk are most likely to be financially secure.

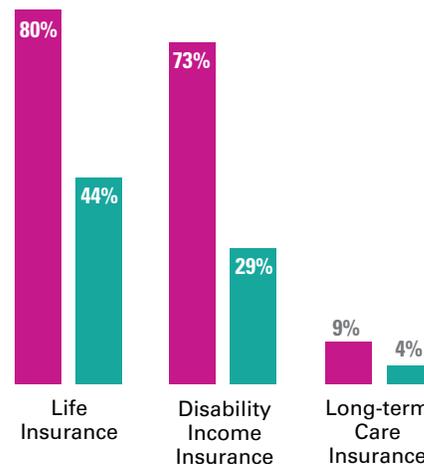
Protection against financial risk is a key component of financial security, and as such, households that consistently protect against risk are more likely to be financially secure.

Of financially secure working households,

- **80 percent have life insurance,**
- **73 percent have disability income insurance, and**
- **9 percent have individual long-term care insurance.**

Of working households in need of significant improvement, only

- **44 percent have life insurance,**
- **29 percent have disability income insurance, and**
- **4 percent have individual long-term care insurance.**



INITIAL RECOMMENDATIONS

Recommendations to Policymakers

Strong public policy can help Americans prepare for their financial future. The ACLI analysis highlights the importance of sound financial decisions at every age to the quality of life and well-being of American families.

To ensure Americans have the tools and information they need to make good financial decisions, public policy should seek to enhance financial education and increase access to essential financial protection and retirement savings options that encourage Americans to save for retirement, such as workplace savings plans and IRAs.

The need to improve financial literacy has long been recognized by Congress and the Administration. Policymakers can help Americans develop a basic understanding of financial risk, how to build savings, and how to assess their retirement income needs. The implementation of a national strategy for financial literacy and education would help Americans recognize the importance of retirement savings and understand how insurance products help families manage risk and protect savings.

Smart public policy will also encourage access to the broad set of solutions offered by the private sector that empower Americans to address their financial protection and retirement needs. Products such as life insurance, disability income insurance, long-term care insurance, and annuities serve a critical role in enabling families to protect themselves from risk, more easily save money, and adequately supplement the public sector disability and retirement income benefits earned and provided through Social Security. For millions of Americans, these are indispensable elements that provide lifetime financial security and peace of mind.

Helping families learn about and use financial protection and retirement savings options within a well-developed lifetime financial plan is essential for building a strong foundation for financial security. Policymakers must maintain and strengthen their commitment to financial security so Americans are better prepared to address economic uncertainties at every stage of life.

HOUSEHOLDS
UTILIZING
GUARANTEED
LIFETIME INCOME
PRODUCTS ARE
NOT ONLY MORE
FINANCIALLY
SECURE, BUT ALSO
EXPRESS HIGHER
CONFIDENCE
IN A SECURE
RETIREMENT.

POLICY CHANGES ENDORSED BY ACLI

Facilitate the Use of Key Financial Protections

Financial products such as life insurance, disability income insurance, and long-term care insurance help guard against financial risk. Public policy can help educate and expose more Americans to these financial protections by allowing for greater innovation in how products are provided, and encouraging individuals to protect against financial risk.

For example:

- **Life insurance:** Open more avenues for life insurance to reach Americans by making it easier for life insurers to innovate and use technology to better serve consumers.
- **Automatic enrollment for disability income insurance:** Allow auto-enrollment for workplace disability income products to increase coverage of protected employees.
- **Long-term care insurance:** Allow the use of some qualified retirement funds for provision of long-term care insurance without tax penalties.

Facilitate Access to/Promote Use of Guaranteed Lifetime Income

Public policies that promote increased use of annuities to guarantee lifetime income and expand the availability of low-cost retirement income solutions will help provide Americans with independence and dignity throughout life. The availability of lifetime income options can be expanded to reach more families by easing burdens in selecting and offering annuity options.

For example:

- **Lifetime income disclosures:** The Employee Retirement Income Security Act of 1974 (ERISA) should be amended to include a lifetime income disclosure on participant benefit statements to make it easier for workers to understand how their savings can address their month-to-month living expenses.
- **Lifetime income portability:** To continue lifetime income protections in the event of a sponsor-initiated change, participants should be permitted to roll over lifetime income options to an IRA that provides the same or similar lifetime income protection.
- **Annuity selection safe harbor:** The safe harbor rule should be improved to provide greater certainty for plan sponsors and fiduciaries when selecting guaranteed lifetime income products. It should be clear that the rule applies to all guaranteed income products including payout annuities with a fixed term. When considering an insurer's financial capability, employers should be able to rely on specific representations from the insurer regarding its status in relation to state insurance regulation and enforcement.

POLICY CHANGES ENDORSED BY ACLI (CONTINUED)

Expand Access to Workplace Savings

Expanding the financial protection and retirement savings options available through the workplace can go a long way toward helping Americans meet their financial goals. Sound federal policies will expand employee access to employer-sponsored retirement plans, increase participation in employer-based plans and IRAs, and preserve the tax incentives for retirement savings that help millions of American families accumulate savings and reach their retirement goals. Reducing red tape and unnecessary expenses will give all Americans more choice and flexibility.

For example:

- **Multiple Employer Plans (MEPs):** Rules should further encourage and help employers not yet prepared to sponsor their own retirement plan join together to achieve economies of scale and receive advantages with respect to effective plan administration, affordability, and management.
- **“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.”
- **Starter 401(k)s:** Small employers should be encouraged to offer workplace savings opportunities with simple administrative rules and no required employer contributions.

Increase Participation and Savings Rates

For lifetime financial security for all Americans to become a reality, government policies must be crafted to encourage, not discourage, prudent behavior. Smart policies will encourage employers to offer retirement savings vehicles and other products that help workers build financial security earlier in life.

For example:

- **Automatic enrollment and auto-escalation:** Encourage employers to auto-enroll new employees with a higher default savings and remove the cap on annual increases of employee contribution rates. Also, including periodic re-enrollment of non-contributing workers would likely boost participation and savings in retirement plans.
- **Savers’ credit:** Improve tax incentives for lower income workers to save for retirement.
- **Stretch match:** Permit employers to encourage higher contribution levels through a “stretch match” safe harbor that incentivizes workers without increasing employer cost.

ADVICE TO CONSUMERS

While improvements to public policy can greatly enhance access to private sector financial and retirement solutions, many households can take steps today to dramatically improve their financial and retirement security in the near future.

Households can effectively “get on track” by adhering to a financial plan that outlines steps to increase emergency savings, reduce debt, and begin (or increase) contributions to a retirement plan or similar long-term investment.

Individuals should also take common sense measures to protect themselves and their families from life’s greatest risks, ensuring they have disability income insurance to protect their ability to earn an income and life insurance to support their family in the case of their death.

At all times, households should feel empowered to turn to experts in the private sector, including life insurers and financial professionals, for financial planning and guidance on how to protect their families, improve their finances, and secure their retirement.

Key Considerations for Consumers

- Maintain at least three months—ideally, six months —savings as an emergency fund.
- Keep student loans to a minimum, and aim to pay off more than the required monthly amount.
- Maintain appropriate home equity for your age.
 - Plan to payoff your mortgage by retirement.
- Obtain adequate health insurance.
- Obtain life insurance coverage that is sufficient given your household’s lifestyle, number of dependents, debt, and likely final expenses (i.e., a 35-year-old couple with young children, a mortgage, and one income should ideally have 8–10 times their annual income in life insurance coverage).
- Aim to regularly contribute 10 percent of your pre-tax income to your workplace retirement plan, or at least enough for a full employer matching contribution, if available.
 - If no employer plan is available, consistently contribute to an IRA.
- If working, ensure disability income insurance coverage that would replace at least 60 percent of your income.
- By age 50, start preparing for the likelihood of requiring long-term care in retirement. Seriously consider purchasing insurance coverage for long-term care—individually or as part of a life insurance policy.
 - By age 65, preparing for long-term care is a high priority and should not be delayed.
- By age 50, consider purchasing an individual annuity to provide some source of guaranteed lifetime income above Social Security to cover their essential expenses in retirement.
 - By age 65, own an individual annuity to at least cover your expected essential expenses that are above your Social Security benefits.
- Once you have dependents, or by age 50, have an estate plan in place.

CONCLUSION

Millions of Americans are achieving financial and retirement security, practicing smart financial habits and behaviors, and utilizing public and private sector retirement solutions. However, there remains room for improvement to increase education and access to solutions that help advance financial and retirement security.

The ACLI analysis illustrates the importance of collaboration between policymakers and the private sector to find ways to educate the general public, increase access to financial and retirement security products, and alleviate the stress on governmental programs meant to provide only a floor for one's income in retirement.

Increased access to insurance products that protect against risks—including life insurance, health care insurance, disability income insurance, and long-term care insurance, can help ensure the stability of families throughout life's unexpected twists and turns.

Increased access to retirement solutions, such as annuities, that boost consumer confidence and quality of life is more important than ever with the increasing longevity of Americans and growing strain on Social Security.

America's private sector financial and retirement solutions must remain strong and accessible for the millions of Americans in need of a financially secure future and peace of mind in retirement.

ACLI Resourcing

The ACLI analysis was developed using Strategic Business Insights' (SBI) 2016-2017 MacroMonitor Survey. The MacroMonitor Survey is a nationally representative survey of approximately 4,500 U.S. households and is similar to the Federal Reserve Survey of Consumer Finances (SCF) in scope and sample size.

As the MacroMonitor Survey is administered more frequently and processing time is considerably shorter, its most recent data is more current than the most recent SCF data at any given time. Additionally, while the SCF is typically administered within 80 minutes, respondents have several weeks to complete the extensive and more detailed MacroMonitor Survey. The MacroMonitor Survey also includes unique questions on financial behavior, risk tolerance, perceptions of financial security and well-being, and asks probing questions concerning life insurance products, different types of retirement savings, and household attitudes concerning both.

In the years when MacroMonitor and the SCF were both administered, "household incidences for major financial assets and debt" aligned closely, helping to validate both surveys. The ACLI analysis resulting from the use of MacroMonitor data also aligns broadly with Boston College's National Retirement Risk Index and the Employee Benefit Research Institute's Retirement Confidence Survey.

ACLI

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 federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products and solutions for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 95 percent of industry assets in the United States.

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