



Statement for the Record

Submitted to the

U.S. House Ways and Means Committee

“Improving Retirement Security for America’s Workers”

February 6, 2019

On Behalf of

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The American Council of Life Insurers (ACLI) is pleased to submit this statement for the record on “Improving Retirement Security for America’s Workers.” The ACLI thanks Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX) for holding this important hearing. This statement will highlight the successes of the current retirement system, challenges that savers face and public policy proposals that would enhance and build upon the successes of the retirement system.

THE AMERICAN COUCIL 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, reinsurance, dental and vision 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 we provide, and public solutions that are necessary, we believe the benefits of protection should be 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. Our nation is grappling with some big 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 is there for Americans to the level that we guarantee to be there.

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 efforts 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

While employer-provided retirement plans provide a critical retirement security safety net to workers, impediments still exist that prevent more widespread employee participation. For some savers, 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. These plans, while providing choice and flexibility for participants, also require acumen to grasp various savings and investment options, a strong understanding of personal goals for the future and the foresight to know how much savings are needed in retirement.

Numerous segments of the population seem to have greater barriers to savings. While 80 percent of full-time workers have access to a retirement plan in the workplace, only 33 percent of part-time workers enjoy access to this benefit, in particular people who work for small employers and gig economy workers.¹ 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.²

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.³ They may be 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.⁴

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. While numerous pieces of legislation introduced in the 115th Congress sought to accomplish this objective, perhaps the most comprehensive, the Retirement Enhancement and Savings Act (RESA) ([S. 2526](#) / [H.R. 5282](#)), demonstrated that sound retirement policy that is supported in a bipartisan, bicameral way is possible. While RESA was not enacted during the 115th Congressional session, it remains the bedrock of innovative and thoughtful proposals that have the potential to increase retirement savings for Americans. As the 116th Congress considers next steps

¹ Bureau of Labor Statistics, Employee Benefit Survey, <https://www.bls.gov/ncs/ebs/benefits/2018/ownership/civilian/table02a.htm>

² 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

³ ACLI analysis of Strategic Business Insights 2016-2017 MacroMonitor Household Survey.

⁴ 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

in the retirement security space, it is imperative that they take action and pass 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.⁵ 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.⁶ 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 effectively managed. 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.

While the Department of Labor (DOL) has a current 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 its “commonality” 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.

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.⁷
- **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

⁵ Bureau of Labor Statistics, National Compensation Survey, <https://www.bls.gov/ncs/>

⁶ [H.R. 854](#), introduced in the 115th Congress by Representatives Buchanan (R-FL) and Kind (D-WI); [S. 3219](#), introduced in the 115th Congress by Senators Cotton (R-AR), Young (R-IN), Heitkamp (D-ND) and Booker (D-NJ); [S. 1383](#), introduced in the 115th Congress by Senators Collins (R-ME) and Nelson (D-FL)

⁷ [H.R. 4637](#), introduced in the 115th Congress by Representatives Kind (D-WI) and Reichert (R-WA); [H.R. 3902](#), introduced in the 115th Congress by Representatives Bishop (R-UT) and Neal (D-MA); [S. 1383](#), introduced in the 115th Congress by Senators Collins (R-ME) and Nelson (D-FL)

an “Auto-IRA” should receive the same level of protection and state wage law pre-emption provided to employers sponsoring “Auto-401(k)s.”⁸

- 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.⁹
- 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.¹⁰

2. Facilitating Plan Participant Access to Lifetime Income Options

Many workers do not currently have access to an annuity option within their employer-provided plan. An annuity is a financial product only offered by life insurance companies which is guaranteed to pay a monthly amount for a certain period or for life. 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.

ACLI supports proposals which improve upon the current annuity provider selection safe harbor rule.¹¹ 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, as well. ACLI supports legislation and regulation that focuses on expanding the 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

⁸ [H.R. 4637](#), the SAVE Act of 2017, introduced in the 115th Congress by Reps. Kind (D-WI) and Reichert (R-WA); [S. 1383](#), in the 115th Congress introduced by Senators Collins (R-ME) and Nelson (D-FL)

⁹ *Id.*

¹⁰ [H.R. 4637](#), introduced in the 115th Congress by Representatives Kind (D-WI) and Reichert (R-WA), H.R. 5282, Representatives Kelly (R-PA) and Kind (D-WI); [S. 2526](#), Introduced in the 115th Congress by Senators Hatch (R-UT) and Wyden (D-OR)

¹¹ [H.R. 4604](#), introduced in the 115th Congress by Representatives Walberg (R-MI) and Blunt Rochester (D-DE); [S. 2526](#), Introduced in the 115th Congress by Senators Hatch (R-UT) and Wyden (D-OR)

benefits. Legislation has been introduced that would enhance the portability of guaranteed lifetime income products.¹²

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 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 2017.¹³ Additionally, employers offering one-on-one retirement plan investment advice rose by 14 percentage points to 55 percent in 2017.¹⁴

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 2014.¹⁵

Creative policy approaches that would assist employees in saving for retirement are also under consideration. One approach 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.¹⁶ This would apply to 403(b) and SIMPLE plans as well.

In addition to efforts undertaken by employers to increase financial literacy, legislative proposals supported by ACLI would seek to improve retirement savings by informing participants of their account balances through a lifetime income disclosure illustration.¹⁷ 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

¹² [H.R. 3910](#), introduced in the 115th Congress by Representatives Neal (D-MA) and Bishop (R-UT); [S. 2526](#), Introduced in the 115th Congress by Senators Hatch (R-UT) and Wyden (D-OR)

¹³ Prudential Financial Inc., *Benefits and Beyond: Employer Perspectives on Financial Wellness* <https://www.prudential.com/media/managed/rp/32467.html>

¹⁴ 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>

¹⁵ 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>

¹⁶ [S. 3771](#), introduced by Senators Ron Wyden (D-OR) and Ben Cardin (D-MD); [S. 3781](#), introduced by Senators Rob Portman (R-OH) and Ben Cardin (D-MD)

¹⁷ [H.R. 2055](#), introduced in the 115th Congress by Representatives Messer (R-IN), Pocan (D-WI), Reichert (R-WA), Polis (D-CO), Kind (D-WI), Wilson (R-SC), and Norcross (D-NJ); [S. 868](#), introduced in the 115th Congress by Senators Isakson (R-GA) and Murphy (D-CT)

employees with information about their retirement benefits by making it easier for employers to 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.¹⁸ 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 and 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

Every day, 10,000 Americans reach age 65. Providing American workers with greater access to employment-based retirement plans and options related to these plans helps them better prepare for retirement. Additionally, facilitating lifetime income solutions and communicating how retirement savings translate into a monthly income benefit empowers and educates participants to make better decisions. Many retirees are expected to live another 20-30 years or longer in retirement and need to understand how to manage their savings to ensure it lasts their lifetime. Public policy proposals, like RESA, which utilize innovative products and retirement solutions stand to only improve the current retirement system and guarantee a financially secure retirement for millions of Americans. The 116th Congress has a unique opportunity to pass important legislation this year that would accomplish these objectives. 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.

¹⁸ [H.R. 4610](#), introduced in the 115th Congress by Representatives Polis (D-CO), Roe (R-TN), Kind (D-WI) and Kelly (R-PA)