



Statement for the Record

Submitted to the

U.S. Senate Committee on Health, Education,  
Labor & Pensions  
Subcommittee on Primary Health and Retirement Security

“Financial Literacy:  
The Starting Point for a Secure Retirement”

August 21, 2018

On Behalf of

The American Council of Life Insurers

The American Council of Life Insurers (ACLI) is pleased to submit this statement for the record regarding financial literacy and potential improvements to the retirement system in the United States. The ACLI thanks Chairman Michael Enzi (R-WY) and Ranking Member Bernard Sanders (I-VT) for holding this important hearing. This statement will highlight the positive effect financial literacy can have on the retirement savings system, as well as current public policy proposals that would enhance and build upon the successes of that system.

## **THE AMERICAN COUCIL OF LIFE INSURERS**

ACLI advocates on behalf of 290-member companies dedicated to providing products and services that promote consumers' financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers' products for peace of mind. ACLI members represent 95 percent of industry assets 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). ACLI members also are 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. Through these products, Americans are able to plan, save and guarantee themselves a secure retirement.

## **THE CURRENT SUCCESSFUL RETIREMENT SYSTEM**

The retirement system for private-sector workers in America starts with Social Security and is enhanced by employment-based retirement plans and personal savings (including IRAs, individual annuities and regular savings and investment accounts). These private-sector components 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 participated in a plan. All workers have access to individual annuities, IRAs, and private savings opportunities.<sup>1</sup>

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 financial literacy, as well as

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<sup>1</sup> ACLI analysis of Strategic Business Insight's MacroMonitor Household Survey, 2016-2017.

its consideration of other public policy proposals that seek to improve the private-sector retirement system.

## **THE IMPACT OF FINANCIAL LITERACY ON RETIREMENT SAVINGS**

A study published in the *Journal of Pension Economics and Finance* found that only 35 percent of working-age adults were able to correctly answer three very basic questions related to personal finance, indicating that up to 65 percent of Americans lack some financial literacy. Importantly, this study also found that those who are financially literate are much more likely to plan for their retirement and that the cost of financial *illiteracy* may be passed on to others in the form of greater reliance on government safety nets.<sup>2</sup>

The need to improve financial literacy has long been recognized by Congress and industry stakeholders. 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 retirement products – and particularly 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 enhance their financial protection and address their 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, save money for a secure retirement and supplement Social Security’s disability and retirement income benefits. For millions of Americans, these products are indispensable elements that provide lifetime financial security and peace of mind. Helping families learn about and use these financial protections and guaranteed lifetime income products within a well-developed financial plan is essential for building a strong foundation for financial security.

## **THE ROLE OF PUBLIC POLICY TO STRENGTHEN THE CURRENT RETIREMENT SYSTEM**

In addition to financial literacy, effective public policy can help Americans prepare for their financial future. 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 and income products. To accomplish this objective, ACLI supports the following policy concepts.

### **1. Increased Access 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 50 percent of all workers employed by businesses with fewer than 50 workers have access to a workplace retirement plan.<sup>3</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.

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<sup>2</sup> Lusardi, Annamaria; Mitchell, Olivia S., “Financial Literacy and Retirement Planning in the United States”, the *Journal of Pension Economics and Finance*, vol. 10, no. 4, October 2011, pp. 509-525.

<sup>3</sup> Bureau of Labor Statistics, National Compensation Survey, <https://www.bls.gov/ncs/>

Proposed legislation seeks to remedy this access challenge by facilitating retirement plan creation among small employers.<sup>4</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 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.

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>5</sup>
- **Voluntary Auto-IRA:** Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduction IRA. Voluntary “Auto-IRA” sponsors should receive the same level of protection and state wage law pre-emption provided to employers sponsoring “Auto-401(k)s.”<sup>6</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>7</sup>
- **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>8</sup>

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<sup>4</sup> [S. 3219](#), introduced by Senators Cotton (R-AR), Young (R-IN), Heitkamp (D-ND) and Booker (D-NJ); [S. 1383](#), introduced by Senators Collins (R-ME) and Nelson (D-FL); [H.R. 854](#), introduced by Representatives Buchanan (R-FL) and Kind (D-WI)

<sup>5</sup> [S. 1383](#), introduced by Senators Collins (R-ME) and Nelson (D-FL); [H.R. 4637](#), introduced by Representatives Kind (D-WI) and Reichert (R-WA); [H.R. 3902](#), introduced by Representatives Bishop (R-UT) and Neal (D-MA)

<sup>6</sup> [S. 1383](#), introduced by Senators Collins (R-ME) and Nelson (D-FL); [H.R. 4637](#), the SAVE Act of 2017, introduced by Reps. Kind (D-WI) and Reichert (R-WA)

<sup>7</sup> Id.

<sup>8</sup> [S. 2526](#), Introduced by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 4637](#), introduced by Representatives Kind (D-WI) and Reichert (R-WA), H.R. 5282, Representatives Kelly (R-PA) and Kind (D-WI)

## 2. Greater Choice and Flexibility for Plan Participants

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 are designed and regulated to 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.<sup>9</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 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 benefits. Legislation has been introduced that would enhance the portability of guaranteed lifetime income products.<sup>10</sup>

## 3. Increased Education and Access to Plan Information

Other legislative proposals supported by ACLI that would improve financial education include a lifetime income disclosure illustration.<sup>11</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 utilize this illustration as it is included in the federal Thrift Savings Plan annual statement.

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<sup>9</sup> [S. 2526](#), introduced by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 4604](#), introduced by Representatives Walberg (R-MI) and Blunt Rochester (D-DE)

<sup>10</sup> [S. 2526](#), introduced by Senators Hatch (R-UT) and Wyden (D-OR); [H.R. 3910](#), introduced by Representatives Neal (D-MA) and Bishop (R-UT)

<sup>11</sup> [S. 868](#), introduced by Senators Isakson (R-GA) and Murphy (D-CT); [H.R. 2055](#), introduced by Representatives Messer (R-IN), Pocan (D-WI), Reichert (R-WA), Polis (D-CO), Kind (D-WI), Wilson (R-SC), and Norcross (D-NJ)

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 communicate with employees electronically.

There are 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>12</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 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 policies that encourage financial literacy should not be focused solely within the workplace, but in educational settings at a variety of age and learning levels. Financial literacy coupled with proactive, effective policy solutions has the potential to increase retirement security for millions of Americans. ACLI continues to urge policymakers to support and make every effort to enhance the current retirement system.

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<sup>12</sup> [H.R. 4610](#), introduced by Representatives Polis (D-CO), Roe (R-TN), Kind (D-WI) and Kelly (R-PA)  
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