Statement for the Record

Submitted to the

United States Senate
Committee on Health, Education, Labor and Pensions

"Retirement Security: Building a Better Future"

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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 "Retirement Security: Building a Better Future." ACLI thanks Chairwoman Patty Murray (D-WA) and Ranking Member Richard Burr (R-NC) for holding this important hearing. This statement will highlight the successes of the current retirement system, challenges that workers and retirees face, especially in light of the COVID-19 global pandemic, and public policy proposals supported by ACLI that would enhance and build upon the successes of our nation's 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). Three-fifths of small employers (those with 99 or fewer employees) rely on life insurer products and services in their employment-based retirement plan. ACLI members are also employer sponsors of retirement plans for their employees. And there are more than 15 million annuity-based IRAs held by individuals. 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 2020, American families received $392.3 billion in payments from annuities, $130 billion in payments from life insurance, $20 billion in disability income insurance benefits and $11.4 billion in long-term care insurance benefits. Americans are faced 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.[1] No other industry provides Americans with the level of financial guarantees provided by the life 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, individual retirement accounts, annuities, and other investments. Private-sector savings play a vital role in retirement security for millions of Americans. Current tax incentives for pensions and retirement savings

[1] ACLI analysis of *preliminary* 2020 NAIC Annual Statement data.

encourage employers to provide and maintain work-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, 82 percent participate in a workplace plan.[2] Yet, many workers don't have such access. More can and should be done to ensure that everyone who can afford to save for retirement is saving for retirement.

CHALLENGES FACING RETIREMENT SAVERS

While the current combination of Social Security and employment-based and individual retirement arrangements has successfully demonstrated that workers can attain retirement security, the global pandemic has brought into sharp focus challenges Americans face with ensuring they have both short-term and long-term savings – both key components to financial health. In 2019 for example, almost 50 percent of all households in the US households had less than $5,300 in liquid savings that can be used for an emergency.[3] This was exacerbated in 2020 as families faced financial crises with the economic downturn related to COVID-19. Some retirement savers, having little to no emergency savings utilized plan loans and distributions features made available through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The median amount of coronavirus distribution according to Fidelity Investments was $4,800, indicating that smaller amount of emergency savings was a deficiency for many families.

While workplace retirement plans with payroll deducted contributions 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 financial management 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, retirement savers have a greater role in setting personal savings goals, making informed investment decisions and planning for income throughout retirement.

Certain segments of the population have greater barriers to savings. While 80 percent of full-time civilian workers have access to a retirement plan in the workplace, only 40 percent of part-time workers enjoy access to workplace savings, in particular, people who work for small employers and gig economy workers.[4] 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.[5]

Black and Hispanic savers have savings rates that lag significantly behind their white counterparts. These deficiencies are magnified in women. It is important to note that financial insecurity, which includes a lack of retirement savings, is deeply rooted in other institutional inequities, including earnings, savings, housing and overall financial wealth. According to the Federal Reserve's 2019 Survey of Consumer Finances, Black and Hispanic families are far less likely to have a retirement

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[2] Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2020, https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf
[3] ACLI analysis of the Federal Reserve, Survey of Consumer Finances, 2019.
[4] Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2020, https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf
[5] 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

account.[6] Among middle-aged families (who have the highest rates of account ownership) 65 percent of white families have at least one retirement account, compared to 44 percent of Black families, and just 28 percent of Hispanic families.[7] Contributing to this disparity is that Black and Hispanic families do not have access to a retirement plan in the workplace at the same rate that white families do.

Additionally, millennials tend to be less prepared for retirement than earlier generations at the same stage in life with 45 percent having no dedicated retirement savings. Of those with such savings, a third have saved $6,600 or less and 30 percent of millennial households have less than $1,300 in liquid emergency savings.[8] Almost 41 percent are burdened with student loan debt and may delay saving for retirement.[9] This segment may also face challenges related to access to a retirement savings plan in the workplace. According to Pew Charitable Trusts' 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.[10]

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.[11] 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.[12] Additionally, woman caregivers are much less likely to participate in an employer's 401(k) 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.[13] 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 66 percent, compared to 75 percent of mothers with older children.[14]

Other important factors that can greatly impact a person's ability to achieve a financially secure retirement include longevity and proximity to retirement age. COVID-19 has certainly exacerbated these two considerations. While living a long and healthy life is an aspiration for many, it is also a consideration when planning for retirement. Ensuring that retirees do not outlive their savings and are able to decumulate their accounts in a manner that ensures quality of life, is incredibly important. Americans are living longer - with more than 10,000 Americans turning 65 every day.

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[6] Federal Reserve, 2019 Survey of Consumer Finances, https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm
[7] Id
[8] ACLI analysis of the Federal Reserve, Survey of Consumer Finances, 2019
[9] ACLI analysis of the Federal Reserve, Survey of Consumer Finances, 2019
[10] 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
[11] 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
[12] Id.
[13] Christian E. Weller and Michele E. Tolson, *Do Unpaid Caregivers Save Less for Retirement?,* https://jor.iijournals.com/content/6/2/61/tab-article-info
[14] Bureau of Labor Statistics, *Employment Characteristics of Families — 2020,* https://www.bls.gov/news.release/pdf/famee.pdf

Some could expect to live 30 years in retirement, and risk outliving their retirement savings. Additionally, older Americans who are near or in retirement need additional options to ensure that they can preserve and manage their savings to last throughout their retirements.

BOLD SOLUTIONS TO ADDRESS RETIREMENT CHALLENGES

The passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, the most comprehensive retirement legislation passed since the Pension Protection Act in 2006, is expected to prove instrumental in increasing access to retirement plans. The provisions within the SECURE Act built upon the current successful private sector system, making important changes to ensure financial retirement security. For example, making it easier for employers to sponsor a retirement plan, encouraging employees to save, and helping them prepare for a secure retirement through lifetime income solutions, have real-world positive benefits. Increasing access for employees of small employers alone is anticipated to result in more than 700,000 new retirement savings accounts.

To build upon the success of the SECURE Act, other effective public policy proposals, in addition to action by plan sponsors and providers, can help to address savings challenges and help Americans ensure a secure retirement. Policymakers should continue to seek to increase access to essential financial protections, encouragement financial equality, and provide incentives to retirement savings and guaranteed retirement income products. The focus should continue to be on ways to help more people retire with peace of mind — increasing savings rates, workplace access and lifetime income security for *all* Americans, all key to financial security. Additionally, policy should be crafted to specifically help vulnerable populations, those adversely affected by COVID-19 and those that aim to close the short-term savings gap, build a financially sound foundation.

Policy proposals that seek to increase retirement savings that ACLI supports include:

1. Increased Access to and Participation in Retirement Plans

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.[15] Of those workers, only 39 percent take advantage of the plan in the workplace.[16] 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. Policy that seeks to incentivize small business plan creation, build upon the current employer-provided system and increase access to savings should be advanced. Measures that accomplish these goals include:

- Retirement Savings Option for All Employees: Requiring employers without a retirement plan to provide workers with access to payroll deducted savings through an IRA, 401(k), or other qualified retirement savings plan is key to fundamentally expanding access to the power of workplace, payroll deducted savings. Employers should have the flexibility to choose to use IRAs or set up a 401(k), or other qualified retirement savings plan. Employers

[15] Bureau of Labor Statistics, National Compensation Survey 2020, https://www.bls.gov/news.release/ebs2.t01.htm
[16] Id.

should not be overly burdened by administrative costs in order to comply and workers must have the right to opt out of participation. When offered a retirement plan by their employer, four out of five full-time private-sector workers participate. Additionally, nearly 73 percent of employers now automatically enroll new participants into their plan.[17] While employees have the option to opt out, most do not. In fact, with new employees, participation rates nearly double to 93 percent when automatically enrolled, compared with 47 percent under voluntary enrollment.[18]

- **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.[19]

- **Increased Default Contribution Levels:** Currently, employers typically automatically enroll employees into their retirement plans at three percent of their employees' salary. While this is an excellent tool to help savers contribute to their retirement plan, increasing the default yearly, as in the Retirement Security and Saving Act of 2019, would result in greater savings levels.[20] Additionally, tax credits for small business to participate in automatic enrollment not only mitigates cost for these businesses but ensures small business employees are able to take advantage of this tool.

- **Automatic Enrollment:**
  - **Incentive for Small Businesses:** Similar to automatic escalation tools, automatic enrollment has proved to be extremely effective in increasing participation rates, and ultimately, savings balances. Pending legislation would provide small businesses with a tax credit of $500 per year for three years for automatic enrollment.[21]

  - **Expanded Access**: Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduction plan. Employers that elect to sponsor an "Auto-IRA" instead of a 401(k) plan should also receive state wage law pre-emption.[22]

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[17] 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

[18] Jeffrey W. Clark, Jean A. Young, Vanguard, *Automatic Enrollment: The Power of Default*, https://institutional.vanguard.com/iam/pdf/CIRAE.pdf

[19] S. 1383, The Retirement Security and Savings Act of 2019, introduced in the 116th Congress by Senators Portman (R-OH) and Cardin (D-MD).

[20] Id.

[21] S. 1383, The Retirement Security and Savings Act of 2019, introduced in the 116th Congress by Senators Portman (R-OH) and Cardin (D-MD). H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).

[22] S. 2370, The Automatic IRA Act of 2019, introduced in the 116th Congress. Introduced by Senator Sheldon Whitehouse (D-RI). H.R.3499, The Automatic IRA Act of 2017, introduced in the 115th Congress by Chairman Richard Neal (D-MA).

2. Incentivizing Savings for Vulnerable and At-Risk Populations

Special consideration should be given to individuals who face unique challenges when it comes to retirement savings. These groups, many times, can benefit greatly from focused public policy initiatives to make their path to saving for retirement easier. These include:

Low Income Earners: While the current Saver's Credit allows low- and middle-income earners a tax credit, the Retirement Security and Saving Act of 2019 would significantly improve the incentive by making the credit refundable, contributing it directly to a retirement plan or Roth IRA and expanding those eligible for the credit.[23]

Part-time Workers: Part-time workers have historically had less access to and lower participation in retirement plans. Currently, 39 percent of part-time workers have access to a retirement plan at work.[24] With the enactment of the SECURE Act, current law now requires employers to allow long-term, part-time workers to participate in their 401(k) plans, those with at least 500 hours of service in three consecutive years. The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX), further extends this benefit to part-time workers by decreasing the year requirement to two consecutive years.

Student Loan Borrowers: Innovative policy approaches that would assist employees in saving for retirement should be a top priority for legislators. 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 loan repayments.[25] This would apply to 403(b) and SIMPLE plans as well.

Home Health Care Workers: 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.[26]

Those Closest to Retirement: As the way we live and work has forever been changed by the global pandemic, those close to retirement need even more flexibility regarding how they continue to accumulate assets, but also, when they are obligated to begin distributing. Given current market volatility, more and more savers are opting to stay in the workforce. Increasing the required minimum distribution (RMD) age from 72 to 75 is a step in the right direction. Also, allowing those 62-64 to maximize their catch-up provision by increasing the amount, is yet another tool.[27]

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[23] Id.

[24] Bureau of Labor Statistics, National Compensation Survey 2020, https://www.bls.gov/news.release/ebs2.t01.htm

[25] Retirement Parity for Student Loans Act of 2021, introduced in the 117th 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 116th Congress by Senators Portman (R-OH) and Cardin (D-MD); H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).

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

[27] H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).

Additionally, retirement savers that are close to or in retirement may want to take steps to ensure they do not outlive their savings. One vehicle that allows them to do this is an annuity. Removing barriers to annuities, including the RMD requirement, provides savers with the option to ensure they have income for life. Additionally, public policy changes to modernize qualified longevity annuity contracts (QLAC) rules, such as repealing the 25-percent account balance limit, increase the eligible QLAC amount to $200,000 and making important changes to ensure spousal survivor rights, ensure that these important tools can be utilized by consumers in order to ensure retirement solvency.[28]

3. Additional Plan Innovations

While the SECURE Act certainly made a large impact on the retirement savings landscape, small changes would improve the act. This includes expanding the Open Multiple Employer Plans (Open MEPs) provision to include 403(b) plans which can be sponsored by certain tax-exempt employers and public educational institutions.

Additionally, as more and more workers opt for unique work arrangements, whether as a result of COVID-19, or due to the changing workforce, policymakers, industry stakeholders and academics have the ability to collaborate to offer policy solutions that rethink how benefits, including retirement benefits, are provided and utilized. While the current system of employer-based benefits has worked well for millions of working Americans and their families, far too many Americans either cannot or do not take advantage of the benefits-based tools critical to achieving financial security, resulting in a financial wellness coverage gap. Addressing this "benefits coverage gap" is essential to give workers the financial building blocks that are essential to financial freedom and security.

One essential building block to addressing the benefits coverage gap, and financial wellness overall, is increased financial education. 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.[29] Additionally, employers offering one-on-one retirement plan investment advice rose by 14 percentage points to 55 percent in 2017.[30] A collaborative approach, that leverages financial education, executed across numerous platforms by many different players, is essential in order to ensure savers have the most basic tools to not only save for retirement, but to fully understand how benefits, budgeting, and basic financial tenants contribute to financial security.

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[28] S. 1383, The Retirement Security and Savings Act of 2019, introduced in the 116th Congress by Senators Portman (R-OH) and Cardin (D-MD). H.R. 2954, The Securing a Strong Retirement Act of 2021, introduced in the 117th Congress by Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX).

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

[30] 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

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 now at 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 increasing financial education empowers and educates Americans to make better decisions. Additionally, ensuring access to and the tools to engage in a retirement plan in the workplace will have a profound impact on creating new savers.

Nearly all the public policy proposals detailed in this statement are included in both the Retirement Security and Savings Act of 2019, and the Securing a Strong Retirement Act of 2021. They will improve the current retirement system and guarantee a financially secure retirement for millions of Americans. Through taking action on retirement security legislation, 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.