



**American Council of Life Insurers' Testimony at January 7, 2019 Public Hearing
about Proposed Amendments to 950 CMR 12.200**

Paul A. Quaranto, Chairman, Chief Executive Officer, and President

Boston Mutual

Good morning. My name is Paul Quaranto and I am the President, CEO and Chairman of Boston Mutual Life Insurance Company. I am here today to testify on behalf of Boston Mutual – as well as the member companies of the Life Insurance Association of Massachusetts and the American Council of Life Insurers – we are members of both - to express our concern about the proposed regulation.

A bit about Boston Mutual. We are a Massachusetts based, mutual life insurance company – meaning that we are owned by and operated for the benefit of our policyholders. We have been doing so since 1891 – when just down the street here in Boston – our company was founded on the premise that working Americans should be afforded the same opportunity - as the more affluent members of our society - to provide financial security to their families.

Fast forward 128 years – we are now headquartered in Canton – but our mission hasn't changed. In fact, we believe it's more important than ever based on the fact that lower to middle income workers represent a significant under-served and under-insured segment of society when it comes to financial and retirement needs.

As a point of reference, many of you may know us – in fact you may be policyholders or certificate holders. Boston Mutual provides life insurance for approximately 90% of the cities and towns in Massachusetts. We insure teachers to firefighters - folks working in Parks and Recreation, Veterans Affairs, the Council on Aging, Affordable Housing and so on. This is a very typical profile of our policyholders – good working people – trying to right by their families.

We also employ 250 people - and were recently recognized by the Boston Business Journal as one of the most charitable companies here in the Commonwealth.

We believe in doing the right thing – and doing it the right way - it's what we stand for – acting in the best interests of our policyholders, agents and employees – all of whom we consider our family. And we believe that Family Matters – No Matter What.

Ours is just one story of many within an industry that has provided private sector solutions to a serious public sector challenge. And even though we believe the proposed regulation does not apply to us because we rarely – if ever – appoint an agent who sells securities – we feel strongly enough that we are speaking out against it.

That is not to say we do not have bad actors – they exist in all walks of life – but the current state based regulatory framework has been successful over an extended period of time – and much good work has been going on between the SEC and NAIC to address this issue in a uniform and measured manner of late. More on that in a minute.

Government studies reveal that many individuals and families have not adequately prepared for long-term financial and retirement security. Massachusetts alone has 1.4 million residents age 65 or older. Research shows that one-third of Americans approaching retirement have between nothing and \$25,000 in savings to supplement Social Security income.

Now more than ever, people need access to financial security and retirement products. That's what life insurers do. In 2017, we paid out \$2.3 billion to life insurance beneficiaries and \$2.9 billion to annuity beneficiaries here in Massachusetts – that represents \$45.5 million daily in life insurance and annuities. We fill a unique and important role in providing the opportunity for financial peace of mind to less affluent markets.

Life insurance agents serve the needs of these folks and do it well. Retirement savers deserve standards that guarantee continued access to a wide variety of insurance and retirement products, information and related financial guidance from agents acting in their best interest.

Regulations like this one would put up a barrier for insurance companies and agents alike – to serve these lower to middle-income people who want to access guidance from financial professionals. I find it ironic that the unintended consequence of this regulation may not be in the best interest of these consumers after all.

This regulation would also have a negative impact on all the good work that's been done to make Massachusetts more economically competitive to the benefit of Commonwealth residents. Remember that life insurers contribute significantly to investment, infrastructure, jobs, taxes, and the economy in Massachusetts. Life insurance companies have invested almost \$160 billion in the Massachusetts's economy and the life insurance industry has provided over 70,000 good jobs. There are over 7,000 insurance agents in the Commonwealth, most of whom operate as small businesses. The proposed regulation will impair life insurers' capacity to invest here due to diminished business caused by regulatory disorder.

I will make one more point. We are a highly regulated industry. If there are problems, our insurance regulator takes action. And for as strong our regulatory system is, we believe it can be stronger, which is why we support efforts already underway to update the regulatory structure in a way that preserves access to the products and guidance people need.

Here's Susan Neely, President and CEO of the American Council of Life Insurers to talk about those initiatives.

Susan K. Neely, President and CEO

American Council of Life Insurers

Thank you, Paul. I have the privilege of working with Paul and companies like his as President and CEO of the American Council of Life Insurers (“ACLI”). Our members serve 90 million American families offering life insurance, annuities, retirement plans, long-term care, disability income insurance, and reinsurance.

For centuries, our industry has developed products and guidance to help consumers decide what is right for their families when it comes to financial security. We know Main Street savers today are especially concerned about how they’ll finance their way through retirement.

It is our view that the proposed Massachusetts rule imposes a harmful fiduciary-only approach for those seeking financial services. The thing is, sadly, a fiduciary – or “fee for service” – approach is elitist, making it harder for small- and moderate-savers to access guidance. The stated intent is to protect them, but in fact it will disenfranchise them.

The typical fiduciary requires a minimum balance of \$100K or more to make the business worth their while, because they charge a percentage of the account to give advice. How many of those middle- or working-class savers that Paul talked about will be able to pay the freight? The average annuity owner’s income is \$64,000.

The result of this “fee for service” approach is an advice gap that favors the wealthy.

We saw this happen at the federal level. During its operation, the Labor Department’s fiduciary rule caused a significant reduction in the availability of products and advice to low- and moderate-income consumers.

If the Labor Department’s (“DOL’s”) regulation had remained in-force, 54 percent of advisors might have dropped or turned away small investors, resulting in as many as 4 million middle class households losing access to information needed to ensure a secure retirement. During its operation, DOL’s Fiduciary Rule caused a significant reduction in the sale of new insurance products. Variable annuity sales declined 21 percent in 2016 and a further 8.7 percent in 2017.

It was a bad idea that deprived people of access – people who need it the most.

Let us be clear. No one should be taken advantage of. ACLI fully supports the prosecution of wrongdoing by bad actors.

Securities regulators found a better way to protect consumers from bad actors AND safeguard access. They strengthened existing rules on the standard of conduct for broker-dealers through a Best Interest initiative. They put consumers first, making sure they receive better information, in plain English, to help them make informed decisions, while preserving access to valuable services.

Our nation's insurance commissioners are doing similar work to pass a model regulation.

These are functional solutions that actually help small and moderate retirement savers prepare for the future.

As Americans address their financial and retirement security needs, ACLI supports protections serving the best interests of customers, which can be meaningfully safeguarded with disclosure about services and material conflicts of interest. This proposal, however, is fundamentally defective. It exceeds statutory authority. It muddies the compliance and regulatory waters, shrinking the delivery of financial and retirement advice for small and moderate retirement savers.

ACLI encourages the Division of Securities rethink its proposal in view of the SEC's Best Interest initiative and the parallel developments underway at DOL and the NAIC that provide functional solutions to consumer protection in Massachusetts.

Thank you.