ACLI
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The American Council of Life Insurers

Written Statement for the Record

for

“Tax Reform and Tax-Favored Retirement Accounts”

Committee on Ways and Means

United States House of Representatives

April 17, 2012

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The American Council of Life Insurers (ACLI) commends the Committee for holding this hearing on the important tools Americans use to save for their retirement. We applaud Chairman Camp (R-MI) and Ranking Member Levin (D-MI) for holding this particular hearing to consider the current menu of options Americans rely on to save for retirement and to examine how they increase retirement and financial security for American families. ACLI urges the Committee, first and foremost, to do no harm to the existing retirement system as it is considered in the context of tax reform. Policymakers should avoid disrupting a retirement system that works well for most Americans and instead focus on enhancing the system so that it works well for more Americans.

THE AMERICAN COUNCIL OF LIFE INSURERS

The American Council of Life Insurers is a national trade organization with over 300 members that represent more than 90% of the assets and premiums of the U.S. life insurance and annuity industry. ACLI member companies offer insurance contracts and investment products and services to qualified retirement plans, including defined benefit pension, 401(k), 403(b) and 457 arrangements and to individuals through individual retirement arrangements (IRAs) and on a non-qualified basis in an annuity. ACLI member companies also are employer sponsors of retirement plans for their employees. As service and product providers, as well as employers, we believe that saving for retirement, managing assets throughout retirement, and utilizing financial protection products are critical to Americans retirement and financial security.

Seventy-five million – or two out of three – American families count on life insurers' products for protection, long-term savings, and a guarantee of lifetime income when it's time to retire. Given today's economic uncertainties, the financial and retirement security these products provide has never been more important. To provide context on the extent to which the life insurance industry protects American families, in 2010 alone, American families received $58 billion in life insurance death benefits, $70 billion in annuity payments, $16 billion in disability income insurance benefits, and $7 billion in long-term care insurance benefits. Through these products, and other qualified offerings, Americans are able to plan, and save, for a secure retirement.

AMERICA'S PORTFOLIO OF RETIREMENT SOLUTIONS

Recognizing the need for Americans to have a private sector means by which to save for their retirement, Congress has worked over several decades to create retirement solutions that meet the needs of varied employers who want to offer their employees a plan and individuals who want to save on their own. In this way, Congress acknowledged that "one size does not fit all."

In fact, ACLI and other financial services providers have worked to provide educational resources to make sure these plans are well understood by the employers that offer them and by the individuals that choose to save on their own. Workers that are covered by an employer-sponsored retirement savings plan understand their plan offerings through educational efforts by their employer. Similarly, individuals and employers have access to advisors, internet education sites, and governmental resources that can help guide them to the best suited retirement solution.

ACLI supports simplification of the retirement system to the extent that changes improve retirement outcomes for American families. In the past, piecemeal changes in the name of simplicity have actually resulted in more complexity – both for employers who are required to implement these changes and for individuals who had become accustomed to the previous rules. As policymakers consider ways to improve the current retirement system, it is important that we **build on its successes,** not reduce the available solutions.

AMERICA'S EFFICIENT SYSTEM OF RETIREMENT SAVINGS

ACLI thanks the Members of this Committee for their support of the H.Con.Res. 101 and its statement of support for the current structure of retirement savings tax rules. To date, more than half of this Committee – led by Reps. Gerlach and Neal – support this resolution recognizing the important role that 401(k), 403(b), 457, IRAs, and other current law retirement savings tax rules play in helping Americans build retirement savings.

As noted in the resolution, a critical component of the current system is the tax rules designed to encourage Americans to save for their retirement. While enhancements can and should be made, in general the current system, and in particular the tax rules designed to encourage savings, have worked extremely well and are highly valued by American savers.

A recent survey found that "a vast majority of households agree that preserving the current retirement savings incentives should be a national priority. Eighty-eight percent of households owning DC accounts or IRAs agree with this policy priority, while 76 percent of households without DC accounts or IRAs agree."[1] Further, another survey by the National Association of Home Builders found that retirement savings programs like an IRA or a 401(k) are rated by American voters as the most important investment that will pay off for one's family. 41% of respondents cited "retirement savings programs" as their number one priority (the second place choice of "a home" was the top priority of 28% of respondents).[2]

Additional savings incentives have also been put into place to further encourage low-income Americans to save for their retirement. There is a supplemental retirement saving incentive of up to $2,000 *exclusively* for lower- and middle-income individuals. This Saver's Credit is only available to: an individual earning less than $27,750, or a married couple earning less than $55,500. The ACLI would support enhancing this credit by permitting the credit to be deposited directly as additional savings to an employee's retirement plan. More generally, when considering the distribution of public retirement benefits, we would note that low-income Americans enjoy significantly greater public retirement subsidies in the form of Social Security benefits than do upper and middle-income Americans. "Measured against wage-indexed average earnings, the lowest [income] quintile receives a median replacement rate of 244 percent versus 47 percent for the middle quintile and 34 percent for the highest quintile."[3]

POLICYMAKERS SHOULD NOT LIMIT SAVINGS OPPORTUNITIES

Unfortunately, short-sighted proposals that would dramatically change the current tax rules for retirement savings have been put forward and analyzed by members of Congress.

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[1] Holden, Sarah, and Steven Bass. 2012. America's Commitment to Retirement Security: Investor Attitudes and Actions. Washington, DC: Investment Company Institute (January).
[2] Neil Newhouse, Alex Bratty, Public Opinion Strategies, NAHB National Survey of Likely Voters, January 2012
[3] Andrew G. Biggs and Glenn R. Springstead, "Alternate Measures of Replacement Rates for Social Security Benefits and Retirement Income," Social Security Bulletin, Vol. 68, No. 2, 2008.

Independent analyses have generally found that these proposals would be detrimental to retirement savings and would disproportionately -- and negatively -- impact younger and lower income workers.

In his testimony before the Senate Finance Committee in 2011, Dr. Jack VanDerhei, Research Director at EBRI, discussed EBRI's analysis of a proposal to fundamentally change the retirement savings system put forward by Dr. Bill Gale, Senior Fellow, Brookings Institution. His proposal envisions transitioning the current deduction-based retirement system into a system incentivized by refundable tax credits for retirement savings. EBRI's analysis of this proposal found that the lowest income workers would be most likely to react to such a change by reducing their retirement savings (56.7% of respondents to their survey would reduce savings). Additionally, EBRI found that a proposal of this sort would significantly reduce Americans' total retirement savings. This is especially true for younger Americans who, under EBRI's most generous assumptions, could see a reduction in their 401(k) account balances of at least 11% – however this reduction could be as high as 30 or 40% under more realistic assumptions.

Another analysis by EBRI revealed that the recommendation by The National Commission on Fiscal Responsibility to limit contributions to defined contribution retirement plans to the lesser of $20,000 or 20 percent of compensation will reduce retirement security for workers at all income levels, not just high income workers. According to the study, those in the lowest income quartile will have the second highest average percentage reductions and small business owners may be less likely to offer a plan to their employees if contribution limits are lowered. Proposals to reform retirement savings incentives must focus on crafting policy that will result in better long-term retirement outcomes for Americans, rather than on short-term deficit reduction.

Separately, some states are considering legislation to create government-sponsored retirement plans for private sector workers. These proposals raise many questions and concerns, including application of ERISA to state-run plans, increased taxpayer liabilities, and direct state competition with the private sector. Instead, states should focus their efforts on state-wide education programs that raise awareness of retirement security issues, promote retirement savings, and encourage the adoption of new plans.

INCREASING RETIREMENT AND FINANCIAL SECURITY

ACLI urges this Committee to look at proposals that would enhance retirement and financial security.

The ACLI supports reforms to and expansion of the private multiple employer plan (MEP) system to further encourage and facilitate participation by employers that are not prepared to sponsor a stand-alone retirement plan.

MEPs can be an important tool to reduce costs and administrative burdens. Under a MEP, businesses join together to achieve economies of scale and advantages with respect to plan administration, and advisory services. MEPs may be a good option for employers that are not confident they can or should sponsor their own retirement plan. Participation in a MEP may facilitate a smooth transition to a stand-alone employer-sponsored retirement plan. ACLI would like to thank Reps. Kind and Neal for introducing legislation that would expand the private MEP system (H.R. 1534 and H.R. 4050, respectively).

ACLI also supports expanding participation by encouraging employers to enroll workers automatically in defined contribution plans and IRAs, and to increase contributions through auto-escalation.

Rep. Kind has introduced automatic IRA legislation that encourages employers to enroll workers automatically in an IRA, H.R. 1534, the SAVE Act. On the other hand, the Administration has put forward the Automatic IRA (AutoIRA) proposal in its budget proposals. Rep. Neal has also introduced legislation to this effect, H.R. 4049. These later proposals would require any employer in business for at least two years and having ten or more employees to automatically enroll eligible employees into a Roth IRA. If the employer offers a qualified plan, SEP or SIMPLE retirement plan for its employees, it is not required to participate. However, if the employer's qualified plan otherwise excludes a portion of its workforce (i.e., a subsidiary, or division of the company) from participation in its qualified plan, the employer must provide an AutoIRA for those excluded employees.

Other initiatives that would increase American's retirement and financial security include:

- Efficiently distributing disclosures to individuals through the electronic delivery of notices. Rep. Neal's legislation, H.R. 4050 also includes a provision to this end.

- Facilitate the use of longevity insurance. The Department of the Treasury has taken important steps to allow the use of longevity insurance, however Congress should consider doing more to modernize and reform minimum required distribution (MRD) rules.

- Facilitate the use of lifetime income options in retirement plans. Rep. Neal's Legislation, H.R. 4050, also includes provisions to provide lifetime income portability and ease plan administration.

PRESERVE ACCESS TO INVESTMENT ADVICE

Access to affordable investment advice is key to helping individuals and employers select and utilize the most appropriate retirement savings solution. ACLI thanks Chairman Camp and many other members of this Committee for sharing their concerns over the Department of Labor's ("Department") initial proposed rule on the definition of fiduciary for purposes of giving investment advice. In response to these concerns, in September, the Department announced that it would re-propose the rule. ACLI appreciates the Department's concern that under some circumstances the current rule impinges the Department's ability to bring enforcement actions in situations that are clearly abusive. We share the Department's interest in seeing that plans and participants who seek out and are promised advice, receive advice that adheres to the standards imposed by ERISA. At the same time, we are concerned that the initial proposed rule's pursuit of this objective would have disrupted investment sales and distribution practices that are customary in the marketplace, well understood, and commonly relied upon by financial service providers, plans and participants alike. We are also concerned that these changes would have resulted in plans, plan participants, and IRA owners having less access to investment information.

The SEC soon will issue a Request for Information in pursuit of its rulemaking. This is in response to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that a uniform fiduciary standard be implemented for all broker-dealers, their registered representatives and investment advisors. This initiative directly impacts many of the same individuals that would be affected by the fiduciary rule being promulgated by the

Department. ACLI has requested that these two agencies coordinate and issue their proposed regulations simultaneously. We hope that any re-proposed rule will advance the Department's and the SEC's enforcement objective while avoiding unnecessary disruption and negative impacts to plans, participants and individuals.

IMPORTANCE OF LIFETIME INCOME

As the first wave of the baby boom generation reaches retirement age, it is important to educate American workers about the need to consider the need to have guaranteed lifetime income in retirement. Many current retirees are fortunate in that they are receiving lifetime monthly income from both Social Security and an employer-provided defined benefit (DB) pension. That situation is rapidly changing. Today, more workers have retirement savings in defined contribution (DC) plans, which largely do not offer the option to elect a stream of guaranteed lifetime income. This change leads to questions of how individuals will manage their savings to last throughout their lifetimes. Workers need to understand the value of their retirement savings as a source of guaranteed lifetime income. With this information, workers would be in a better position to consider augmenting their Social Security benefit with additional amounts of guaranteed lifetime income. This income may be used to meet anticipated monthly expenses and it shifts the risk of outliving one's savings to a life insurer.

ACLI thanks Reps. Kind and Reichert for their continued support of the bipartisan "Lifetime Income Disclosure Act," a provision that is part of their legislation, H.R. 1534. This is the first step in helping individuals think of defined contribution plan savings as not only a lump sum balance, but also as a source of guaranteed lifetime income. With this additional income information on a benefit statement, coupled with the Social Security income statement, workers can 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.

Over the long-term, the nation will benefit when individuals address their long-term financial security needs today, and will be less likely to rely on public assistance tomorrow. Government policies that encourage prudent behavior, such as long-term savings for retirement, should not only be maintained, they should be enhanced. Therefore, ACLI continues to urge policymakers to support and build on the current retirement savings system and reject any proposals that would limit Americans' opportunity to save and prepare for their future.