Financial Security...for Life.

The American Council of Life Insurers

Statement

To the Pensions/Retirement Working Group

Ways and Means Committee

U.S. House of Representatives

April 15, 2013

ACLI Retirement Security Submission to Ways & Means Pensions/Retirement Savings Working Group

I. Introduction

The American Council of Life Insurers (ACLI) commends the House Ways and Means Committee (Committee) for establishing a working group that focuses on pension and retirement savings issues. We applaud Chairman Dave Camp (R-MI) and Ranking Member Sandy Levin (D-MI) for highlighting these topics for special examination, and thank the working group co-chairs, Rep. Pat Tiberi (R-OH) and Rep. Ron Kind (D-WI) for hosting roundtables so that working group members would hear from stakeholders on this important topic. ACLI urges the Committee, first and foremost, to do no harm to the existing retirement system as it may be considered in the context of tax reform. Policy-makers should avoid disrupting a retirement savings system that helps millions of Americans save for retirement and instead focus on enhancing the system so that it reaches more Americans.

The American Council of Life Insurers

ACLI is a national trade organization with more than 300 members that represent 90 percent 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 annuities. Life insurers actively market retirement plan products and services to small businesses (those with fewer than 100 employees). According to a 2012 survey of ACLI member companies, more than 25 percent of small employer defined contribution plan assets are held by life insurers, and one-third of small employer defined contribution plan participants are in plans funded by life insurers. Our members also are employer sponsors of retirement plans for their employees. As service and product providers, as well as employer sponsors, life insurers believe that saving for retirement, managing assets throughout retirement, and utilizing financial protection products are critical to Americans' retirement income and financial security.[1]

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 is time to retire. Given today's economic uncertainties, the financial and retirement income 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 2011 alone, American families received $62 billion in life insurance death benefits, $75 billion in annuity payments, $17 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.

II. Current Landscape

Our retirement system is based on three pillars: employment-based plans (including both defined benefit plans and 401(k), 403(b), and 457 arrangements); personal savings (including individual retirement accounts, individual annuities[2] and regular savings and investment accounts); and Social Security. All three of these pillars are important and play a vital role in retirement security. This submission focuses on the many strengths of the current employer-based defined contribution system and IRAs. Workers with defined contribution plans own the assets in their accounts and typically have control over the investment of

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[1] See Appendix A: "Employee Benefits: The Employer-Insurer Partnership for Financial Security"

[2] Individual annuities are an important savings vehicle for many Americans and are discussed in our joint submission with the Americans to Protect Family Security Coalition.

contributions.[3] At retirement, the accumulated assets represent the sum of contributions into the plan by employees and their employers plus the earnings those contributions have made over the years.

Tax Treatment of 401(k)s, 403(b)s, 457s, and IRAs

401(k)s, 403(b)s, 457s, and IRAs provide valuable tax incentives to employers and employees to encourage long-term retirement savings. An employer's contribution to workplace retirement plans on behalf of employees is tax deductible to the employer. In this submission, we are generally discussing pre-tax or traditional accounts (although all of these plan types permit Roth[4] accounts as well). A worker's contribution is excludable from income and there are no taxes due on earnings until money is withdrawn. When withdrawals are taken, taxes are paid at ordinary income rates, not at the more favorable capital gains rates. Contributions to traditional IRAs are tax-deductible (for those who qualify for the deduction) and tax on earnings in all IRAs is deferred. For lower income workers, an additional retirement savings tax credit (the Saver's Credit) can further reduce their tax bill.

There are many limitations on the amounts that can be invested in these plans. Code section 402(g) limits the contributions that an individual can make annually to a 401(k), 403(b), or 457(b) plan ($17,500 in 2013), and individuals age 50 and older may make additional catch-up contributions (an additional $5,500 in 2013).[5] Code section 415(c) limits all contributions that can be made in a year to a 401(k) plan on behalf of an individual, including the employee's contribution and all employer contributions ($51,000 in 2013). Code section 401(a)(17) limits the amount of an individual's compensation that can be considered under the plan's benefit formula ($255,000 in 2013). There are nondiscrimination rules that ensure: plans benefit non-highly compensated employees; plan allocations do not disproportionately benefit higher income workers; and plan accumulations do not disproportionately benefit business owners and other key employees.

Restrictions and penalties apply for early withdrawal of retirement savings (i.e., before retirement or disability). These restrictions exist as a trade-off for the valuable tax incentives and are designed to help ensure savings remain and grow until workers reach retirement.

This tax treatment is essential for encouraging people to save. According to a 2012 survey, 83 percent of households said that the tax-deferred treatment of contributions was "a big incentive to contribute." Nearly half (45%) said they probably would not have saved for retirement without the plan.[6]

Tax Expenditure List Categorizes the Retirement Deferrals as Expenditures

It is often noted that retirement savings provisions are among the largest items in the ranking of federal tax expenditures. Employee and employer contributions are not exempt from tax, but rather deferred. Congressional or Administration budgets are generally for 5 or 10-year periods. This approach does not acknowledge the revenue in subsequent years that is paid when amounts are distributed from retirement plans. In considering the taxation of retirement plans, it is important to recognize that taxes will be paid on the contributions and investment returns when funds are withdrawn by retirees.

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[3] Having an investment choice and control over investments was selected as a favorable feature by 97% of households that owned a defined contribution plan account. This feature ranked the highest among a list of features where respondents were asked to give their views. Sarah Holden and Steven Bass, Investment Company Institute, America's Commitment to Retirement Security: Investor Attitudes and Actions, January 2012, Figure 6, p. 14.

[4] In Roth accounts, contributions are made with after-tax dollars and, provided certain conditions are met, distributions are not taxed.

[5] Additional catch up contribution provisions apply to certain 403(b) and 457 plan participants.

[6] Sarah Holden and Steven Bass, Investment Company Institute, America's Commitment to Retirement Security: Investor Attitudes and Actions, January 2012, p. 15.

A recent study looks at the longer term—20 years—and calculates the cost of tax deferral of contributions to retirement accounts. In the case of a $1,000 contribution by someone in the 25 percent tax bracket, the government loses $250 of tax revenue in the year the contribution is made. If the investment has a 6 percent nominal rate of return, the government loses $353 on interest income over a 20-year deferral period. However, when the accumulated distribution of $3,207 is taken out, the government collects $802 of tax revenue (assuming that individual is still in the 25 percent tax bracket). Interestingly, the $802 collected in 20 years is equivalent to $250 today, using the same 6 percent discount rate. Thus, in this example the government foregoes no lost revenue when it defers taxes on contributions to retirement.[7]

Capital Formation

Retirement savings arrangements play an important role in the capital markets. As of December 31, 2012, $5.06 trillion in assets were held in retirement plans such as 401(k)s and $5.4 trillion were held in savings in IRAs of all types, a pool of funds that includes rollovers from 401(k) and similar plans.[8] Together these two pillars—defined contribution plans and IRAs—represent $10.5 trillion (54%) of an estimated $19.5 trillion in the nation's total funded retirement assets. This pool of capital helps to finance productivity-enhancing investments and business expansion. Changes to the tax treatment of retirement savings arrangements that would reduce contributions or discourage the establishment and maintenance of plans could lessen the impact of retirement savings in the capital markets.

Access, Participation, and Accumulated Savings

Current tax incentives for retirement successfully help millions of American families accumulate savings and improve their retirement security. The Bureau of Labor Statistics has reported that 78 percent of full-time workers have access to a retirement plan, and of those, 83 percent participate in a plan.[9]

As workers move from job to job, it is not uncommon for them to have more than one retirement account. A recent survey[10] of one million employees who have both a workplace savings plan, such as a 401(k) or 403(b), and an IRA, found that the average combined balance was $225,600 at the end of 2012 for all workers of all ages in the sample.[11] Combined balances rose by age group from $32,317 for those aged 25 to 29 to $447,751 for those aged 70 to 75.

The 401(k) was introduced in the early 1980s, thus not enough time has elapsed for workers to retire after working a full 40- to 45-year career in the 401(k) system. However, a study found that accumulations through 401(k), including rollover IRA balances, can generate significant income for retirees across all

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[7] Peter Brady, The Tax Benefits and Revenue Costs of Tax Deferral, 2012, Investment Company Institute, Washington, D.C., p. 9.
[8] Peter Brady, Kimberly Burham, and Sarah Holden, The Success of the U.S. Retirement System, Investment Company Institute, December 2012, Figure 4, p. 11.
[9] Bureau of Labor Statistics, Employee Benefits Survey: Retirement Benefits, March 2012: Retirement Benefits: access, participation, and take-up rates: National Compensation Survey, March 2012.
[10] Fidelity® Retirement Savings Analysis Highlights Higher Balances and Contribution Rates of Investors Saving Beyond Workplace Savings Plans, Press Release, February 28, 2013. http://www.fidelity.com/inside-fidelity/employer-services/fidelity-analysis-highlights-balances-and-contribution-rates-of-combined-retirement-savings.
[11] This analysis was based on the population of 999,000 individuals who had both IRA and 401(k) (or 403(b)) balances at Fidelity as of 12/31/2012. These individuals consist of those actively employed as well as those terminated from their 401(k)/403(b) plan sponsor. Only a subset of these individuals made contributions into their IRAs and/or 401(k)/403(b) plan in 2012. Excluded are individuals in Fidelity's own employee plans, as well as those in the advisor-sold channel. Additionally, many workplace plan participants presumably have IRAs that are not serviced by Fidelity, and these balances are not reflected in this analysis.

income groups over a full working life.[12] The model includes Social Security income in its calculations. Employees can build up significant accumulations when they have continuous 401(k) coverage, even when equity returns are assumed to be lower.[13] The model[14] found that those with continuous coverage would reach replacement rates between 51 percent for the lowest-earning one-fourth (or quartile) of the population,[15] and 69 percent for the highest income quartile.[16] When combined with estimated Social Security payments, these accumulations could provide a replacement rate of 103 percent for the lowest-earning quartile and between 83 and 86 percent for the other quartiles.[17]

III. Proposals that Adversely Impact Retirement Savings Arrangements

Tax Reform – Guiding Principle "First, Do No Harm"

As the Committee considers tax reform, we urge it—first and foremost—to do no harm. Policy-makers should avoid disrupting a retirement system that helps millions of Americans save for retirement and instead focus on enhancing the system so that it reaches more Americans. We need policies that will bolster retirement security for future generations—policies that build upon the existing successful structure to generate greater retirement savings.

As discussed in more detail above, current tax incentives are limited. Not only are there limits to the dollar amounts that can be contributed, but the many complex testing rules ensure that lower income workers participate in and receive benefits under the plan. Placing further limits on retirement savings would be detrimental to both employers[18], especially small businesses, and workers. The proposals described below would erode retirement security and should be rejected.

Proposals to Limit or "Cap" Amounts Held In Retirement Plans

The Administration's Fiscal Year 2014 budget includes a proposal to limit an individual's total balance across tax-preferred accounts to an amount sufficient to finance an annuity of not more than $205,000 per year in retirement, or about $3.4 million in 2013, but could be much lower when interest rates rise. ACLI is opposed to proposals that would further limit tax preferred retirement savings. We are concerned that the cap sets a precedent that could be set lower if Congress seeks more revenue. A cap would reduce the incentive for many small business owners to establish or maintain a plan. A business owner may reach this cap well before retirement.[19] Additionally, a cap has the unintended consequences of capturing individuals – in particular younger workers – as they work over a 40-year career. This cap would fluctuate with changes in interest rates, leaving workers who are diligent savers facing a confusing and unpredictable barrier on their savings.

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[12] Sarah Holder and Jack VanDerhei, "Can 401(k) Accumulations Generate Significant Income for Future Retirees?" *Investment Company Institute Perspective*, Vo. 8, No. 8, November 2002.
[13] Ibid, Figure 1, p. 3.
[14] The model includes 401(k) balances at employers and rollover IRA balances. The EBRI/ICI study focused on participants who were in their late 20's in 2000 and who would reach age 65 sometime between 2035 and 2039.
[15] Ibid.
[16] Ibid.
[17] Ibid.
[18] See Appendix B: "A National Policy for Lifetime Financial and Retirement Security."
[19] Annual accumulations of $51,000 earning a 6 percent nominal return will reach a $3.4 million cap in 27 years.

Proposals to Limit Value of Deductions/Exclusions to Percentage

Some proposals[20] have suggested limiting the availability of deductions and exclusions by either: (1) limiting the tax benefits attributable to certain tax expenditures to 28 percent for certain individuals, or (2) capping the amount of deductions and exclusions from income that can be used at a specific dollar figure, such as $25,000. These proposals would be harmful to the current system, and would reduce the incentive for small businesses to sponsor a plan.[21]

Each proposal would cause some individuals to pay tax on a portion of their retirement contributions. Since this limit applies at the individual taxpayer level, not to a specific plan or IRA, individuals will have to track their own basis, and this greatly increases the complexity of the plans. This tax treatment may make retirement plans less advantageous to many individuals (including working families and small business owners) in comparison to other savings vehicles. Alone, or in conjunction with the Administration's proposed cap, this also reduces the incentive for many small business owners to sponsor a plan (small business owners are likely not to implement or maintain a plan without strong incentives to outweigh the costs of implementing a plan for the small business owner). In fact, the American Benefits Institute commissioned a survey[22] recently which found that eight in ten employers said that exclusion of employee contributions (88%) and employer contributions (77%) from current taxation is important to their company's decision to sponsor a plan and provide a means of retirement saving to their workforce.

Proposals to Reduce the Limits on Deductible DC Plan/IRA Contributions

Tax reform proposals to lower limits on defined contribution plans and IRAs[23] would cause a drop in the number of employers sponsoring plans and would result in a reduction of participants' account balances. The Bowles-Simpson proposal would cap total retirement plan contributions to the lesser of 20 percent of compensation or $20,000. This approach should be rejected. The serious harm to retirement security that would result from this tax increase greatly exceeds any benefits from short-term deficit reduction. The current structure of the tax incentives (the interaction of the contribution limits and the nondiscrimination testing rules) play a critical role in encouraging key decision-makers to sponsor and maintain plans. A reduction in the limits may cause current employers to reduce their matching contributions or stop offering the plan.

Reducing the limits may cause current employers to stop offering a plan. A recent survey by the American Benefits Institute (ABI) revealed that the Bowles-Simpson proposal would likely lead to one in three current large plan sponsors to drop or consider dropping their DC plan.[24] Additionally, it found that the proposal would also likely make three in ten non-sponsors less likely to start a plan in the next two years. We expect that small business owners would have a similar reaction.

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[20] Administration's Fiscal Year 2013 and 2014 Budget of the U.S. Government, Office of Management and Budget; Presidential Candidate Romney's Tax Plan

[21] A 2011 study by Harris Interactive shows that nearly all plan sponsors (92 percent) said the ongoing tax deferral for employees is important in their decision to offer a defined contribution/401(k) plan. And nearly two-thirds (65 percent) said that if the ability for employees to deduct any amount of the 401(k) contribution from taxable income were eliminated, their desire to continue offering the plan would decrease.

[22] Attitudes of Employee Benefits Decision Makers Toward Retirement Plan Tax Proposals (Survey prepared by Matthew Greenwald & Associates Inc. and designed in collaboration with the American Benefits Institute).

[23] National Commission on Fiscal Responsibility and Reform – The Moment of Truth (12/10); Bipartisan Policy Center Deficit Reduction Task Force – Restoring America's Future (11/10); Congressional Budget Office's Budget Options: Reducing the Deficit: Spending and Revenue Options (3/11); and President's Economic Recovery Advisory Board (Paul Volcker, Chair), The Report on Tax Reform Options (8/10)

[24] "Attitudes of Employee Benefits Decision Makers Toward Retirement Plan Tax Proposals," sponsored by ABI, December 11, 2012.

An EBRI analysis of the 20/20 proposal projects reductions in 401(k) balances at retirement of between four and 15.1 percent across all income levels. Notably, among income quartiles, the second highest average reduction would be felt among the lowest income group. Moreover, younger savers with the lowest income would be hit particularly hard, with projected savings at retirement dropping by about 10 percent for individuals under age 45 in the bottom income quartile.[25]

A sweeping change like the 20/20 proposal would cause many small employers to eliminate their plans and would cause a reduction in balances across all income levels.

Proposals to Replace Retirement Savings Exclusions and Deductions with a Refundable Tax Credit

Other proposals suggest removing the current retirement savings deductions and exclusions and replacing them with a refundable tax credit. This would likely cause a drop in the number of small businesses sponsoring plans because it would substantially reduce the incentive for key business decision-makers to have a plan and would disproportionately impact low-income households. One such proposal by Brookings Economist William Gale suggests replacing all exclusions and deductions for retirement savings with a flat 18 percent tax credit that would be deposited directly into the individual's retirement savings account (the “18% match proposal”).[26]

A survey conducted on behalf of The Principal Financial Group (2011) determined that if workers’ ability to deduct any amount of the 401(k) contribution from taxable income was eliminated, 65 percent of the plan sponsors responding to the survey would have less desire to continue offering their 401(k) plan. An 18 percent tax credit provides so little benefit to a business owner (especially when compared to other available investment options) that there would often not be sufficient incentive for a business owner to take on the many costs, responsibilities, and risks of maintaining a retirement plan.

A March 2012 study by EBRI confirms that the 18 percent match proposal will reduce retirement security for workers at all income levels, not just high-income workers. Specifically, the study revealed that some employers would no longer offer a plan to their workers and some participants would decrease their contributions. The combined effect of these changes would result in reduced savings balances at retirement between six and 22 percent for workers currently age 26-35, with the greatest reductions for those in the lowest income quartile. Lowest-income participants in plans sponsored by small businesses would see final retirement savings reductions as high as 40 percent.[27]

For those employers who continue to maintain plans, the 18 percent match proposal would lead to the elimination of employer contributions to retirement plans. Under the proposal, employees would immediately owe income tax on the employer contributions when they are made to the plan (i.e., on compensation they have yet to receive).

Today, the majority of 401(k) plans with matching contributions provide for a match of at least 50 percent of the employee contributions.[28] This provides a powerful incentive for employees to save. It is not at all clear that the “government match” of 18 percent would be as sufficient an incentive to save. Younger employees, in particular—the very people who should be encouraged to save—will likely be reluctant to set aside money today in order to get a small government match.

[25] VanDerhei, Jack. “Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations,” July 2011, EBRI Notes.
[26] See, William G. Gale, Testimony to the United States Senate Committee on Finance Sept.15, 2011.
[27] VanDerhei, Jack. “Modifying the Federal Tax Treatment of 401(k) Plan Contributions: Projected Impact on Participant Account Balances,” March 2012, EBRI Notes
[28] See Plan Sponsor Council of America, 54th Annual Survey, Reflecting 2010 Experience, Table 45.

Proposals for Retirement System Simplification

Proposals to replace the various retirement plan provisions (401(k), 403(b) and 457) with one tax code section for the sake of "simplification" should be carefully measured against the impact and disruption such change would bring to the retirement plan system. 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 has already acknowledged that "one size does not fit all."

IV. Improvements to the System

Although the current system is helping millions of Americans save for retirement, the system could be enhanced to reach more Americans. ACLI supports a number of improvements that build on the current system to increase coverage, increase participation, provide for greater retirement education, and help Americans manage those savings over their lifetimes. ACLI urges this Committee/Working Group to look at proposals that would enhance retirement and financial security.

Increase Coverage: Voluntary Auto-IRA and MEPs

Although the majority of full-time workers are covered by workplace plans, more could be done to expand coverage. ACLI supports proposals that would make it easier for employers to automatically enroll employees into private sector payroll deduct IRAs and simplify the process by which small businesses come together to participate in multiple employer plans (MEPs). Many small businesses do not offer a retirement savings plan for a number of reasons, but not for a lack of product offerings. The uncertainty of revenues is the leading reason given by small businesses for not offering a plan, while cost, administrative challenges, and lack of employee demand are other impediments cited by small business.[29] Legislation was introduced in the previous Congress that, among a number of provisions, would encourage employers without plans to enroll workers automatically in IRAs offered by the private sector.[30]

Another way to expand retirement plan coverage among small businesses is to reform and expand the private MEP system. MEPs can be an important tool in reducing the costs and administrative burdens of a stand-alone plan. Under a MEP, many small businesses can join together to achieve economies of scale and advantages with respect to plan administration and advisory services, making plans much more affordable and effectively managed. MEPs offer the same key protections and benefits of an employer-sponsored retirement plan, such as fiduciary protections, robust contributions levels, and employer contributions, without the cost and administrative burden that often deters an employer from offering a plan to its workers. An employer who participates in a MEP may be more willing to make a transition to a standalone employer-sponsored retirement plan. Legislation has been introduced that would expand the private MEP system.[31]

Together, these proposals would expand workers' access to retirement plan savings opportunities and encourage small businesses to offer a workplace savings solution.

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[29] Jack VanDerhei, Findings from the 2003 Small Employer Retirement Survey, EBRI Notes 24, no. 9, Sept. 2003.
[30] H.R. 1534, the "Small Businesses Add Value for Employees (SAVE) Act," sponsored by Reps. Kind (D-WI) and Reichert (R-WA) in the 112th Congress.
[31] Ibid and H.R. 4050, the "Retirement Plan Simplification and Enhancement Act," sponsored by Rep. Neal (D-MA) in the 112th Congress.

Increase Participation: Auto-enrollment/Auto-escalation

Innovation in plan design is a key reason 401(k) plans have been able to reach more and more workers and improve the level of retirement benefits over time. One such innovation is automatic enrollment to get more workers into plans. Another change, auto-escalation, gradually increases the share of pay contributed each pay period. A joint study quantifies just how helpful auto-enrollment and auto-escalation can be in improving overall participation and total retirement savings.[32] The study uses a projection model to show the increases in replacement rates (how much a retiree will earn in retirement compared to the income he earned at the end of his employment) that can result from these plan design innovations. Legislation has been introduced that would improve the current rules on auto-enrollment and auto escalation.[33]

Guaranteed Lifetime Income

The need for lifetime income is well understood. Guaranteed lifetime income can help ensure that individuals have adequate income at advanced ages, even if they live to age 100 and beyond. These lifetime guarantees provide a source of income that cannot be outlived. By providing insurance against a drop in standard of living, guaranteed lifetime income is an important tool for retirement planning. Guaranteed lifetime income has the potential to provide a higher sustainable level of income than can be achieved with other financial assets. Guaranteed lifetime income is a unique and powerful tool that can help to protect retirees throughout their retirement. Eighty percent of annuity owners think that annuities are an important source of retirement security and make them feel more comfortable in times of financial uncertainty.[34]

As the first wave of the baby boomer generation reaches retirement age, it is important to educate American workers about the need to consider augmenting Social Security with additional amounts of guaranteed lifetime income. Annuities and other guaranteed lifetime income solutions provide insurance protection against longevity risk by pooling that risk and distributing it among the retiree population, shifting the risk of outliving one's savings to a life insurer. Only state regulated and licensed life insurance companies can provide guaranteed lifetime income.

Legislation has been introduced that 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.[35] 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.

Employers and plan sponsors have concerns that providing participants with information outlining the advantages and disadvantages of annuities and other lifetime income options could be construed as "advice" and thus subject them to additional fiduciary liability. To encourage plan sponsors to provide retirement income education, the Department of Labor should provide guidance on when information provided to educate employees about distribution options such as guaranteed lifetime income is

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[32] Sarah Holden and Jack VanDerhei, The Influence of Automatic-Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement, *Investment Company Institute Perspective*, Vol. 11 No. 2, July 2005.
[33] H.R. 4050, introduced by Rep. Neal in the 112th Congress, would modify the automatic enrollment safe harbor to remove the existing 10 percent cap on employee deferrals.
[34] The Gallup Organization with Mathew Greenwald & Associates, 2009 Survey of Owners of Non-Qualified Annuity Contracts (survey of 1,003 owners of non-qualified annuity contracts, conducted on behalf of the Committee of Annuity Insurers).
[35] S. 267 and H.R. 677, the "Lifetime Income Disclosure Act," sponsored by Sens. Bingaman (D-NM), Isakson (R-GA) and Kohl (D-WI) and Reps. Holt (D-NJ), Petri (R-WI), Kind (D-WI) and Reichert (R-WA) in the 112th Congress.

educational in nature and not advice. This could be done by revising and extending Interpretive Bulletin 96-1.

The need to improve Americans' financial literacy has been recognized both on Capitol Hill and in the Administration. Policy makers should help Americans develop a basic understanding of financial risk, how to build savings, how to assess their retirement income needs, and where to find expert advice. ACLI supports efforts to increase Americans' level of financial literacy. As the Department of Labor continues to work on its re-proposed regulation on the definition of fiduciary, care must be taken that access to education and guidance to plan participants not be diminished.

The required minimum distribution rules should be modified to facilitate the use of deeply deferred payout annuities in retirement plans and IRAs. This type of deeply deferred payout annuity is often referred to as a "longevity annuity" or "longevity insurance" and is a payout annuity with payments commencing later in retirement, e.g. at age 75 or 85. The primary benefit of longevity insurance is the mitigation of "longevity risk." Individuals purchasing a longevity insurance contract at retirement age would know that guaranteed monthly payments would begin at age 85, for example, and that those monthly payments would be made for the rest of his or her life.

These deferred payout annuities are available, but are generally not used in plans or IRAs because of the application of the minimum distribution rules. Treasury has proposed regulations that would create qualified longevity annuity contracts (referred to as QLACs) and would facilitate their use in plans by modifying the required minimum distribution (RMD) calculation under Code Section 401(a)(9). ACLI supports this rule. We also support legislation that would further relax the application of RMD rules on longevity insurance by completely excluding the premium amount from the individual's RMD calculation. Since the Code's RMD rules apply only to tax-qualified retirement savings vehicles, this would encourage plan participants and IRA owners to use a portion of their account balance to purchase longevity insurance.

The portability rules should be expanded to maintain participants' access to lifetime income benefits. 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, participants need a means to maintain access to these benefits. Legislation has been introduced that would enhance the portability of guaranteed lifetime income products.[36] ACLI supports legislation and regulation that would permit the distribution of a participant's insured plan benefit when a guaranteed lifetime income product is no longer offered by the plan. 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.

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Over the long run, the nation will benefit when individuals address their long-term financial security needs today, because they 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 policy-makers 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.

We thank the Working Groups for consideration of our comments. We look forward to future opportunities to contribute to the debate and provide you with information that would be valuable to the decision-making process.

[36] The Retirement Plan Simplification and Enhancement Act of 2012 (H.R. 4050).

Employee Benefits
The Employer-Insurer Partnership for Financial Security

Half of all employees report obtaining the majority of their financial protection products, such as life, disability income, and long-term care insurance, as well as retirement savings plans, through the workplace.

Ninety percent of Americans believe that it is important for employers to continue to offer benefits even if the employee must pay most or all of the cost.

HISTORY OF EMPLOYEE BENEFITS

Employee benefit programs are an integral part of America's workplace and have existed in this country since colonial times. In the early twentieth century, these programs began to evolve from simple pension plans to include more comprehensive benefits, such as health coverage and life insurance. The federal government recognized the important role these plans play in providing financial security to working Americans, and over time, our nation's tax policy has strengthened the incentive for employers to provide such programs. This voluntary employer-based system has served Americans well for decades, and continues to provide workers and their families with protection against life's financial risks. In fact, 41 percent of workers consider workplace benefits to be the foundation of their personal safety net.[1] These benefit plans include health care, retirement savings, and financial protection products. Perhaps least recognized and understood are the financial protection products, described below, that help working families manage life's uncertainties.

THE EMPLOYER-INSURER PARTNERSHIP

The life insurance industry is the leading provider of products and services for employer-sponsored benefit packages, including products that protect against the risk of premature death, extended disability, long-term care, or the non-medical expenses often associated with serious Illness. For most American workers, the coverage they receive at the workplace is the only insurance they have for these events, making the benefits provided through the employer-insurer partnership a vital component to the financial security of families across the nation. In fact, half (51 percent) of all employees report obtaining the majority of their financial protection products, such as life, disability income, and long-term care insurance, as well as retirement savings plans, through the workplace.[2]

The workplace is an efficient and cost-effective way to provide American workers—and their families—with the tools they need to attain financial security. Employers conduct extensive research before choosing a provider (life insurance company) that meets the needs of their employees, and negotiate favorable prices that make the coverage affordable. Employers also provide a range of educational information that helps guide their employees through the process of selecting appropriate benefits for their families' needs. In many instances, employees would not have access to these products without the convenient and efficient venue provided by their employers.

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The risk of becoming disabled is quite high—45 percent for persons between ages 35 and 65.

In addition, employers help to make these products affordable by offering various subsidy levels for their employees. Some employers pay 100 percent of employee benefits; others share the costs with their employees; and others offer employees discounted rates on benefits programs that employees pay for themselves. Additionally, many employers allow employees to purchase life insurance coverage for their spouse and children, and long-term care insurance for their spouse and parents. The employee must pay for the dependent coverage in full. The result is a system in which workers and their families have access to affordable coverage through their employer. In fact, 90 percent of Americans believe that it is important for employers to continue to offer benefits even if the employee must pay most or all of the cost.[3] In this volatile economy, working Americans are able to find the financial protection they need through these vital, employer-sponsored plans.

LIFE INSURANCE

Life insurance is a key component of Americans' ability to take individual responsibility for the financial futures of their families. It protects families from financial hardships associated with the death of a loved one. In 2008, group life insurance represented 44 percent of all life insurance policies in force.[4] That same year, life insurers paid $22 billion to beneficiaries of group life insurance contracts, or 36 percent of total death payments.[5]

More and more employers are offering life insurance coverage to their employees. In 2008, 62 percent of workers had access to life insurance at work, up from 58 percent the previous year.[6] And of those employees offered coverage, 96 percent participated.[7] The high percentage of worker participation is a key factor in protecting American families from the financial impact of the death of a loved one. It is also becoming increasingly common for employees to be able to increase their coverage or purchase additional coverage through the workplace. In fact, 70 percent of all life insurance coverage is purchased at work.[8]

Life insurance provided through an employer is most commonly term insurance, which covers a defined period of time and doesn't build up cash value. When an employee leaves his or her job, coverage is terminated. However, most states require a conversion privilege, which allow employees to convert their group coverage to a permanent policy when they leave their job so they can retain life insurance coverage.

While most group insurance contracts provide a lump sum death benefit to a designated beneficiary, many also offer survivor income benefits in the form of monthly or periodic payments to a deceased employee's spouse or other named beneficiary. Some also continue payments to dependent children in the event of a spouse's death.

DISABILITY INCOME INSURANCE

Disability income insurance serves as income protection for workers by replacing a portion of earnings if an insured employee is unable to work due to accident or illness. Prolonged unemployment due to disability can jeopardize a worker's lifestyle and savings for retirement. The risk of becoming disabled is quite high—45 percent for persons between ages 35 and 65.[9] And according to a study conducted by The Hartford, 97 percent of individuals stated they would need to make lifestyle changes if a member of their household lost his or her income.[10]

Many disability income insurance policies are offered as part of an employee group benefit package. According to the U.S. Bureau of Labor Statistics, at least 35 percent of workers were covered by disability income insurance.[11] In 2007, insurers paid $15.7 billion dollars in disability benefits.[12]

A typical policy pays at least half a covered employee's salary up to a specified limit, such as $5,000 a month. Some disability income insurance policies may cover the cost of job training if a worker can no longer perform his or her current occupation, or workspace modifications.

An increasing number of employers—including the federal government and many state governments—offer long-term care insurance as part of their employee-benefit packages.

LONG-TERM CARE INSURANCE

Long-term care insurance has become a critical component of retirement planning. It protects savings from being depleted by the steadily growing costs of long-term care and covers a wide range of services in a variety of settings to help individuals receive care inside our outside the home. An increasing number of employers—including the federal government and many state governments—offer long-term care insurance as part of their employee-benefit packages.

Federal legislation has been introduced in the 111th Congress that would permit employees to pay for long-term care insurance premiums with pre-tax dollars in employer-sponsored cafeteria plans and flexible spending accounts (FSAs). If passed, this legislation will encourage more employers and employees to consider long-term care insurance in their benefit plans.

Those who have long-term care insurance receive substantial benefits. In 2007, insurers paid $7.2 billion in long-term care benefits, helping families pay for long-term care needs and often making it possible for the insured to live at home.[13]

Group long-term care insurance typically is offered as a voluntary benefit for which the employee pays some or all of the premium. In addition, long-term care insurance purchased through the workplace is portable: Employees can retain coverage if they change employers or retire.

SUPPLEMENTAL PRODUCTS

Supplemental benefit products provide employers and employees with flexible benefit choices that build on the basic coverage offered by an employer. Sold at the workplace at discounted rates, supplemental products include additional life and disability income insurance as well as products that help offset employees' out-of-pocket medical expenses. The American Cancer Society and the American Heart Association estimate that two-thirds of the total cost of fighting heart disease, cancer, and stroke comes directly out of the patient's pocket.[14]

Supplemental products offer a wide range of benefit amount and rider options and can be retained when employees change jobs or retire.

WORKPLACE RETIREMENT PLANS

The life insurance industry is an important supplier of products and sevices to employer-sponsored retirement plans. Life insurers work with employers to create retirement savings options and to provide workers with access to lifetime income in retirement through annuities.

Employer-sponsored retirement savings plans have provided many American workers with an opportunity to achieve financial security in retirement. These vehicles include traditional defined-benefit pensions, profit-sharing plans, and defined contribution plans, including 401(k)s, 403(b)s, and 457s. In 2007, approximately 60 percent of workers were offered a retirement savings plan through their employer.[15] The vast majority of workers, both private and government, who are offered such a plan, participate. In fact, 80 percent of workers with access to a workplace retirement plan participated.[16] These statistics prove just how vital these retirement security tools are to America's workforce.

1 MetLife, Study of the American Dream, 2008.
2 Ibid.
3 MetLife, Study of Employee Benefits Trends, 2009.
4 American Council of Life Insurers, Life Insurers Fact Book 2009. Note: Group insurance data includes employer-sponsored insurance and insurance offered through unions and professional associations.
5 Ibid.
6 United States Department of Labor, Bureau of Labor Statistics. Employee Benefits Survey. March 2008.
7 Ibid.
8 UNUM, Employer-Sponsored Benefit Plans, 2008.
9 JHA Disability Fact Book, 2003/2004.
10 The Hartford, Benefit Landscape Study, 2009.
11 United States Department of Labor.
12 ACLI tabulations of Accident And Health Policy Experience Exhibit data, used by permission.
13 NAIC Long-term Care Insurance Experience Reports 2008.
14 American Cancer Society, Cancer Facts & Figures, 2006.
15 "Pension Sponsorship and Participation: Summary of Recent Trends," CRS, Patrick Purcell, September 8, 2008
16 The Hartford, Benefit Landscape Study, 2009.

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. In addition to life insurance and annuities, ACLI member companies offer pensions, 401(k) and other retirement plans, long-term care and disability income insurance, and reinsurance. ACLI's public Web site can be accessed at ***www.acli.com***.

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A NATIONAL POLICY FOR LIFETIME FINANCIAL AND RETIREMENT SECURITY

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A National Policy for Lifetime Financial and Retirement Security

Financial security is the activity of a lifetime. Beginning in our teens and continuing throughout our retirement years, achieving and maintaining financial security is a process requiring careful planning and constant attention.

An 18-year-old may go to college or enter the workforce; a 25-year-old may decide to start a family today or five years from today; a 40-year-old may want to change careers; a 60 year-old may face early retirement; a 80-year-old may confront lifestyle changes to reduce the risk of depleting his or her retirement savings.

At every age, the financial decisions we make are crucial to our quality of life and to the well-being of our families. A primary goal of domestic policy in the United States should be to make sure Americans have the tools and information they need to make good financial decisions, wherever they are along the path of life and whatever their objectives.

First, education is central to lifetime financial and retirement security. Helping Americans achieve a basic understanding of how to save, how to manage their savings to last a lifetime, how personal financial products supplement public programs such as Social Security, and how to protect themselves and their families should prolonged illness or death strike is essential to achieving true financial security.

Second, it is important to improve access to financial security products. Expanding the financial protection and retirement savings options available through the workplace can go a long way towards helping Americans meet their financial goals.

Third, government policy should encourage and motivate Americans to think about and address their financial protection and retirement income needs. The nation benefits in numerous ways when Americans take prudent actions to assure their long-term financial security.

Education, access and encouragement are the foundation of assuring lifetime financial security for all Americans. In the following pages, America's life insurers outline an agenda to help all citizens enjoy a financially secure future.

PART 1—EDUCATION

America is suffering from a financial education deficit. The need to improve financial literacy has been recognized both on Capitol Hill and in the Administration. Policy-makers should help Americans develop a basic understanding of financial risk, how to build savings, how to assess their retirement income, and where to find expert advice. Moreover, Americans need to recognize that most employer-provided retirement plans do not provide guaranteed income and there are limits to the public safety net. Several public policy initiatives can help Americans enhance their financial knowledge. These include initiatives to:

- Implement a national strategy for financial literacy and education that helps Americans recognize the importance of retirement savings, managing these savings to last a lifetime and how insurance products help families manage risk and protect savings.
- Help all Americans visualize how their accumulated savings will address their basic living needs in retirement by providing them with an illustration of how their assets translate into a stream of guaranteed lifetime income.
- Encourage employers to educate workers about all of their workplace benefit plans. This includes opportunities to obtain retirement and financial security through life, disability income, and long-term care insurance as well as options to receive guaranteed lifetime income from retirement plan savings.

PART 2—ACCESS

It is important to improve the availability of financial protection products and retirement savings opportunities, both through the workplace or individually. Reducing red tape and unnecessary expenses will give all Americans more choice and flexibility. It will also encourage employers to offer retirement savings vehicles and other products that help workers build financial security earlier in life. Therefore it is important to:

- Obtain rules for the sales of retirement and financial security products that provide protections for customers and make it easy for them to obtain education, information and advice about these products.
- Seek rules that encourage innovations in financial and retirement security products, for example, obtain workable rules for products that combine long-term care insurance with annuities and life insurance products.
- Strengthen and expand the existing employment-based retirement system through:
    - Expanding participation by encouraging employers to enroll workers automatically in defined contribution plans and IRAs, and to increase contributions through auto-escalation.
    - Allowing retirees to tailor lifetime income streams to suit their individual needs by modernizing required minimum distribution rules.
    - Expanding the availability of lifetime income options to employees by easing the burdens facing retirement plan fiduciaries in selecting and offering annuity options.
- Enhance opportunities for workers to purchase life insurance, disability income and long-term care insurance, and annuity products through their employers
- Allow employees to purchase long-term care insurance through employment-based cafeteria plans and improve the Long-Term Care Partnership Program.

PART 3—ENCOURAGEMENT

For lifetime financial security for all Americans to become a reality, government policies must be crafted to encourage, not discourage, prudent behavior. Over the long-term, the nation will benefit because people who address their long-term financial security needs today are less likely to need public assistance tomorrow. It is important to:

- Encourage Americans to create a personal financial safety net through life insurance, long-term care insurance, disability income insurance and annuities.
- Preserve incentives for Americans to participate in retirement plans, IRAs, and to obtain other financial protection products individually or through the workplace.
- Maintain the availability of life insurance and annuities for all Americans and their families by rejecting proposals that would make these products more expensive, both for families and employers.

CONCLUSION

A focus of public policy should be to help Americans prepare for their financial futures. As the nation recovers from the recession, there is growing awareness that people will have to rely even more on careful management of their own economic resources to address their financial protection needs and secure their retirements.

For millions of Americans, life insurance, annuities, long-term care insurance, disability income insurance and employment-based retirement savings are the foundation of lifetime financial security. These are indispensable elements, providing Americans of all income groups with protection from the financial risks of dying too soon, outliving their assets, not maintaining their standard of living in retirement or suffering a prolonged illness or impairment.

Helping Americans learn about and use financial protection and retirement savings options within a well-developed lifetime financial plan is an essential policy goal. By developing a basic understanding of ways to protect against financial risk, Americans will be in a strong position to navigate the financial marketplace and select products that match their needs.

The nation must maintain its commitment to personal long-term savings and financial security so that Americans will be prepared to address economic uncertainties at every stage of life.

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