United States Senate

Committee on Finance

Hearing entitled:

“Challenges in the Retirement System”

Statement for the Record

of

Wayne Chopus

President and CEO, Insured Retirement Institute

May 14, 2019

Insured Retirement Institute

Chairman Grassley, Ranking Member Wyden, and Members of the Senate Committee on Finance, my name is Wayne Chopus. As the President and CEO of the Insured Retirement Institute (IRI), I am pleased to provide you with our perspective on the importance of this Congress securing the passage of bipartisan, common-sense policies to help Americans achieve their retirement goals. I commend you for holding this hearing, and I welcome the opportunity to provide this statement to the Committee.

Summary of Statement

Consistent with our consumer-focused mission, my statement will address two key priorities:

1. As Americans assume more individual responsibility for ensuring retirement security, they face a looming retirement income crisis.
2. Public policy measures, like those contained in IRI's 2019 Federal Retirement Security Blueprint, offer relief from this growing crisis.

About IRI

As you may know, for nearly three decades, IRI has vigorously promoted consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. Our mission is to: promote better understanding of the insured retirement value proposition; modernize standards and practices to improve value delivery; and to advocate before public policymakers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees.

IRI is the only national trade association that represents the entire supply chain for the insured retirement strategies industry. Our member companies include major life insurance companies like, Prudential, AXA, MassMutual, and Jackson National, broker-dealers like Morgan Stanley, Raymond James and Edward Jones, and asset management companies like T. Rowe Price and Blackrock. Our member companies represent more than 95 percent of annuity assets and include the top 10 distributors ranked by assets under management. We offer education, research, and advocacy resources to more than 150,000 financial advisors affiliated with our member companies.

Our members are represented by hundreds of thousands of registered financial advisors across the country, and therefore, we bring a perspective from Main Street America to the Congress today. After my many conversations with these financial advisors, I have developed a deep level of appreciation for the long—standing relationships they have with their clients and friends—ten, twenty, or even forty years. Our financial advisors consider that relationship to be a sacred trust and as such, they are intensely committed to helping their clients reach their retirement income objectives, which involves a series of the most significant financial decisions a person ever makes over a very long lifetime.

America's Looming Retirement Income Crisis

Americans today are at risk of outliving their assets due to a confluence of several factors – chiefly the shift from defined benefit to defined contribution plans and increased longevity. These challenges put significant retirement savings and income burdens on the shoulders of individual consumers, particularly middle-income Americans, as well as strain both the public and private retirement systems.

As sixty-six million Baby Boomers move into retirement at the rate of 10,000 a day until 2030, they will face immediate and unprecedented income challenges which did not exist for previous generations. According to IRI's *Boomer Expectations for Retirement 2018* annual report, 55 percent of Boomers do not expect to receive a pension from a private employer. In 1985, over 114,000 private-sector defined benefit plans were in place.[1] By 2018, only 25,000 remain and only 18 percent of workers had access to a defined benefit plan.[2] With the remaining public-sector defined benefit plans increasingly being frozen or terminated, virtually all the options to replace the loss of defined benefit plans require defined contributions from the individual. However, with today's historically low personal savings rates, including 45 percent of Baby Boomers who report having nothing saved for retirement, along with insufficient

[1] Pension Benefit Guaranty Corporation. Trends in Defined Benefit Pension Plans
[2] Pension Benefit Guaranty Corporation. *Annual Report 2018*.

opportunities to access a workplace defined contribution plan to save, many retirees will be forced to consider alternative sources to provide retirement income.[3]

In addition, the shift away from the defined benefit pension has increased the risk of retirees outliving their savings. According to the Society of Actuaries Mortality Tables, for a couple age 65 there is an 89 percent chance one will reach age 90 and in nearly one-half of couples one person will survive to at least age 95. This has made the individual also responsible for ensuring their savings last through retirements that can span 20 to 30 years or more. Therefore, it is was not surprising when IRI research revealed that only 23 percent of the Baby Boomer generation believe their retirement savings will last as long as they live.[4] These trends have placed nearly 30 million Americans at immediate risk.

The Baby Boomers are not, however, the only generation to be impacted by shifting opportunities and longer lifespans. Forty percent of Generation X has no retirement savings, a decrease from the forty-five percent with retirement savings in 2016. And while we are still a decade from the eldest of the group reaching traditional retirement age, only one-third have tried to calculate how much they will need to save in order to retire and therefore do not know if they are on track to achieve a secure retirement.[5] While Generation X is optimistic – 67 percent are satisfied with their financial situation -- they cite changes to Social Security benefits and health care expenses as their top concerns and 30 percent of the generation anticipates having to work past traditional retirement age and a quarter do not know if they will ever be able to retire.[6]

These findings underscore the critical importance of ensuring that the regulatory framework governing insured retirement strategies supports an environment which provides consumers access to products that can meet their need to protect against longevity risk, as well as one that extends access to tax-deferred retirement savings. The findings also emphasize the critical need for Congress to act to advance both common sense retirement security policies and initiatives to promote consumer education and choice.

[3] IRI's *Boomer Expectations for Retirement 2019*
[4] *Ibid*
[5] IRI's *Generation X and Retirement Readiness – They're (Mostly) Doing it Wrong*
[6] *Ibid*

Bipartisan, Common-Sense Solutions

The Insured Retirement Institute has long supported the principles of protecting the tax-deferred status for retirement savings, expanding opportunities for more Americans to access workplace retirement savings plans and enhancing the auto-enrollment and auto-escalation features of retirement plans. As such, IRI has identified public policy proposals to address the looming retirement crisis facing a growing number of Americans who are not sufficiently saving for retirement.

Below we are respectfully submitting for your consideration several of the policy proposals contained in the 2019 IRI Federal Retirement Security Blueprint that we ask the Senate Committee on Finance to consider as the committee continues to examine the issue of retirement security during the 116th session of Congress.

The proposals described below include ones which would expand opportunities to save for retirement by enhancing access and features of workplace retirement plans; extend greater access to lifetime income products in workplace retirement plans; help savers make decisions about their finances by improving and modernizing access to information; and maintain and enhance the current tax treatment for retirement savings.

Enable All Small Businesses to Use Multiple Employer Plans for The Benefit of Their Workers

Small businesses face financial and administrative challenges, as well as legal risks, when offering a retirement plan to employees. As a result, many do not offer a retirement savings plan for their employees. Allowing small businesses to band together to achieve economies of scale and to delegate to a professional plan fiduciary responsibility for sponsoring the plan would facilitate their offering a retirement plan and would expand access to a workplace plan for more workers. This can be achieved by removing the restrictions on the types of employers that can band together in a Multiple Employer Plan (open MEPs), and by protecting employers who participate in a MEP and their employees from any negative consequences caused by the acts or omissions of other employers (the "one bad apple rule"). Congress should enact legislation to expand access to MEPs, such as the provisions which have been included in the "***Retirement Enhancement and Savings Act of 2019***" *(S.972)* and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994). In addition, given that lifetime income strategies greatly reduce the risk of outliving retirement savings, these plans should be required to make a lifetime income option available to participating employees.

Increase the Auto-Enrollment and Auto-Escalation Default Rates

Studies have shown that automatic enrollment is extremely successful in getting more people to save for retirement with participation rates at least 10 percentage points higher in plans with automatic enrollment (77%) than those without it (67%). Under current law, employers can automatically enroll employees in 401(k) plans and most private-sector employers set the default rate at 3 percent of pay. This is too low for adequate retirement savings. Research by EBRI has found that a 6 percent default savings rate would lead to significantly better retirement outcomes for workers without causing a marked increase in workers opting out of the plan. Workers across all income brackets are statistically more likely to participate when their employers have auto-enrollment but will need higher savings thresholds to reach their retirement savings goals. Congress should increase the default deferral rate to 6 percent at the time of automatic enrollment and permit automatic escalation up to 15 percent. This proposal is part of several bills, including the ''***Retirement Enhancement and Savings Act of 2019***'' (S.972) and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994).

Enhance the Start-Up Credit for Small Employers' Retirement Plans

Under current law, small employers with up to 100 employees can receive an annual tax credit equal to 50% of the costs of starting a retirement plan, up to a maximum of $500 for three years. Unfortunately, this incentive is not having the desired impact. According to the Bureau of Labor Statistics, less than half of all workers at companies with fewer than 50 employees have access to an employer-sponsored retirement plan. Congress should therefore enact the "the ''***Retirement Enhancement and Savings Act of 2019***'' (S.972) and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994) to make the start-up retirement credit available for the first five years and to increase the maximum credit to $5,000.

Extend Greater Access to Lifetime Income Products

Clarify Employer Fiduciary Responsibility for Choosing Lifetime Income Products

Current regulations do not provide sufficient clarity about the step's employers must take to satisfy their fiduciary responsibilities if they want to make lifetime income products available to their employees. Employers should be permitted to give their employees access to lifetime income products provided by insurers that meet certain existing regulatory requirements enforced by state insurance regulators, such as capital and reserving standards. This can be achieved either through a Department of Labor rulemaking or Congressional enactment of legislation such as the ''***Retirement Enhancement and Savings Act of 2019***'' (S.972) and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994) ".

Enable Annuity Portability

Due to a technicality in the tax code, employees who invest in lifetime income options through an employment-based retirement plan would lose the guarantees associated with those investments if their employer changes recordkeepers. To avoid this result, many employers simply choose not to offer lifetime income options. Congress should enact the ''***Retirement Enhancement and Savings Act of 2019***'' (S.972) and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994)", all of which include provisions to treat a recordkeeping change as a distributable event. This simple amendment will ensure workers are not harmed if their employer decides to make such changes.

Update Required Minimum Distribution (RMD) Rules To Reflect Longer Lifespans

The Required Minimum Distribution (RMD) age was set in 1962 when life expectancies were considerably shorter than they are today. Workers today face an increased risk of outliving retirement assets because of longer lifespans. For a married couple age 66, there is a 66 percent chance of at least one spouse living to age 90, and 33 percent chance of at least one spouse living to 92. Congress should enact legislation such as the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994) and/or the "***Retirement***

Security and Savings Act of 2018 (S.3781-115th Congress) " to increase the RMD age from 70 ½ to at least 75 and mortality tables should be updated to reflect longer life expectancies.

Help Savers Make Decisions About Their Finances

Require Lifetime Income Estimates on Workers' Benefit Statements

To save appropriately for retirement, workers should understand how much monthly income their nest egg could generate in retirement. Research by IRI found that more than 90 percent of workers want retirement income estimates and would find them helpful. Additionally, more than 75 percent of workers said they would increase their savings level after seeing these estimates. Congress should enact the "***Lifetime Income Disclosure Act (LIDA)***," which would direct the Department of Labor to adopt a rule requiring the inclusion of lifetime income estimates on benefit statements. This provision was also included in the ''***Retirement Enhancement and Savings Act of 2019***'' (S.972) and/or the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994).

Encourage Electronic Disclosure for Retirement Plans

Encouraging the use of modern electronic communication would have a direct and beneficial impact on workers and beneficiaries. Participants of all ages and incomes increasingly prefer to access information online, allowing them to more easily act on that information. According to the Progressive Policy Institute, the volume of printed disclosure is intimidating to workers and the static nature of printed documents does not invite the interactive engagement consumers need to manage their retirement portfolios appropriately. Congress should enact legislation, such as the "***Receiving Electronic Statements to Improve Retiree Earnings (RETIRE) Act*** (S. 3795 – 115th Congress)" to permit electronic delivery to be the default option for providing required disclosures to plan participants, with an option to receive paper if desired.

Maintain and Enhance the Current Tax Treatment for Retirement Savings

Maintain Tax-Deferred Treatment for Retirement Savings

The "***Tax Cuts and Jobs Act***" which was enacted into law in 2017, recognized the vital role tax deferred retirement savings plays in spurring America's economic growth and prosperity. By maintaining the tax-deferred treatment of retirement savings, Congress preserved the tools necessary to help Americans save for their retirement during their working years. Research conducted by IRI shows Americans would save less if tax deferral is reduced or eliminated. Congress should continue to promote the use of tax deferral for retirement savings to encourage more Americans to prepare and save for a secure retirement.

Protect the Current Structure and Diversity of Workplace Retirement Plans

There are several types of workplace defined contribution retirement plans which consider the differences among workers in various employment sectors, such as the private, governmental, church, educational, and nonprofit sectors. The most prominent are 401(k), 403(b) and 457(b) plans. Proposals to consolidate these types of plans have been discussed during previous efforts to reform the tax code for purposes of simplification and consolidation. These proposals were not included in the "***Tax Cuts and Jobs Act***" and the distinct types and structures of retirement plans which were created to address the needs of distinct types of workers were maintained in the tax code. Congress should continue to protect and retain the current structure and diversity of workplace retirement plans.

Provide Favorable Tax Treatment for Guaranteed Lifetime Income in Retirement

Distributions and withdrawals from guaranteed lifetime income products – like annuities – are currently taxed as ordinary income. However, these products provide significant social and economic benefits. By helping older Americans avoid outliving their assets, annuities reduce pressure on Social Security and similar programs. Congress should therefore create tax incentives – such as a lower tax rate or an exclusion from taxation – to encourage greater use of guaranteed lifetime income products.

<u>Conclusions</u>

IRI respectfully submits and strongly urges Congress to enact comprehensive retirement legislation to modernize private-sector retirement savings opportunities. The policy objectives detailed in this testimony have all been included in the "**Retirement Enhancement and Savings Act (RESA) of 2019** (S. 972)" as well as the "***Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019***" (H.R. 1994). For the foregoing reasons cited above, IRI is proud to reaffirm and reiterate its support for RESA and the SECURE Act and calls on Congress to advance the legislation expeditiously.

IRI also wishes to extend its appreciation Chairman Grassley and Ranking Member Wyden for their leadership in reintroducing this legislation, for holding this hearing, and making retirement security for more Americans a top priority for the Committee during this Congress.

Thank you for the opportunity to present this testimony. It is our hope you will find it useful, and IRI welcomes the opportunity to work with the Committee in the future as you consider legislative avenues to help all Americans achieve their retirement goals.