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Committee on Finance

Subcommittee on Social Security, Pensions, & Family Policy

Hearing entitled:

"Investigating Challenges to American Retirement Security"

Statement for the Record

of

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Chairman Portman, Ranking Member Brown, and members of the Committee on Finance Subcommittee on Social Security, Pensions, and Family Policy, my name is Wayne Chopus, and I am the President and Chief Executive Officer of the Insured Retirement Institute (IRI). As such, I am pleased to provide you with our perspective on the importance of this hearing investigating challenges to American retirement security. In America today, too few workers and retirees are accumulating sufficient savings and lack access to opportunities to ensure they will have enough income throughout their retirement years to enjoy a secure and dignified retirement. IRI in this statement for the record will offer for the Committee's consideration legislative policy proposals which can serve to help address the retirement security crisis looming for our nation's workers and retirees.

The enactment of the comprehensive *Setting Every Community Up for Retirement Enhancement Act* (SECURE Act) in December 2019 expanded access to workplace retirement savings and lifetime income products. When fully implemented, it will allow more of America's workers and retirees to take a step forward on the path to heightened retirement security. However, this year has caused many workers and retirees to take an unexpected detour on that path when our nation found itself amid an unprecedented health crisis that spurred momentous disruptions to our nation's and the world's economies. These disruptions resulted in unanticipated volatility in the markets where most of our nation's retirement savings are invested, deepening the anxiety felt by millions of workers and retirees about their outlook for retirement.

I commend you for holding this hearing, and I welcome the opportunity to provide this statement for the record to the Subcommittee to offer policy proposals which can help individuals whose long and short-term retirement security have been impacted not only by the economic consequences resulting from the pandemic but also our nation's looming retirement savings crisis. The proposals offered below all will enhance and strengthen America's workers and retirees retirement security for both today and tomorrow.

<u>Summary of Testimony</u>

Consistent with IRI's consumer-focused mission, my testimony will address two key points:

1. The COVID-19 pandemic and corresponding economic consequences have exacerbated an already existing retirement security crisis that has loomed over Americas workers and retirees for many years now.

2. Comprehensive legislation, such as the *Retirement Security and Savings Act of 2019*, offers solutions to help get Americans back on the path to strengthened retirement security by eliminating obstacles and expanding access to savings opportunities.

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 a better understanding of the insured retirement value proposition; modernize standards and practices to improve value delivery; and 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, Equitable, MassMutual, Nationwide, 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 90 percent of annuity assets and include the top 10 distributors ranked by assets under management. Our members are represented by financial professionals serving millions across the country, and therefore, we bring a perspective not only from the entire supply chain of insured retirement strategies but more importantly from Main Street America to Congress.

America's Retirement Security Crisis

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

As the sixty-million strong Baby Boomer generation reaches retirement age at the rate of 10,000 a day until 2030, they face immediate and unprecedented income challenges which did not exist for previous generations. According to IRI's *Boomer Expectations for Retirement 2019* report, only 23 percent of Baby Boomers, aged 56 to 61, expect to receive a pension from their private employer. In 1985, over 114,000 private sector defined benefit plans were in place but by 2019, only 25,000 remained[1] and only 16 percent of workers had access to such a 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 individual savings. This shift, coupled with today's historically low savings rates – 45 percent of Baby Boomers have nothing saved for retirement[3] – and insufficient access to workplace retirement plans has forced many Americans to reconsider their retirement options and alternative sources of income.

Additionally, the shift away from defined benefit pensions has increased the likelihood of a retiree outliving their savings. According to the Society of Actuaries Longevity Illustrator[4], for a couple age 65 there is an 89 percent chance one will reach age 85, a 73 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 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 believes it will have enough money to last throughout retirement[5]. These trends place nearly 30 million Americans at immediate risk.

Baby Boomers are not the only generation to be impacted by shifting opportunities and longer lifespans. Forty percent of Generation Xers have no retirement savings, a decrease from the 45 percent who reported retirement savings in 2016[6]. And while the oldest Gen Xers have nearly a decade before recaching traditional retirement age, only one-third have tried to calculate how much they will need to save to retire, 30 percent anticipate having to work past age 65, and a quarter doubt if they will retire[7]. Similarly, while 80 percent of Millennials are saving for retirement, they are wildly under-saving with nearly half having saved less than $10,000[8]. Both Generation Xers and Millennials expressed concerns that changes to the Social Security system will keep the program from providing meaningful income in their retirement years, with 47 percent of Generation X[9] and 55 percent of Millennials[10] expressing confidence in the program.

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[1] Scott G Young, "PBGC 2019 Actuarial Report," Pension Benefit Guarantee Corporation, March 26, 2020.
[2] "Bureau of Labor Statistics Data," U.S. Bureau of Labor Statistics, accessed December 7, 2020.
[3] "Boomer Expectations for Retirement 2019, Ninth Annual Update on the Retirement Preparedness of the Boomer Generation,"Insured Retirement Institute, April 8, 2019.
[4] Longevity Illustrator, Society of Actuaries.
[5] "Boomer Expectations for Retirement 2019: Ninth Annual Update on the Retirement Preparedness of the Boomer Generation", Insured Retirement Institute, April 8, 2019.
[6] "Generation X and Retirement Readiness: They're (Mostly) Doing It Wrong", Insured Retirement Institute, 2018.
[7] *Ibid.*
[8] "Millennials and Retirement 2020: Understanding, Savings, and Planning", Insured Retirement Institute, 2020.
[9] "Generation X and Retirement Readiness: They're (Mostly) Doing It Wrong", Insured Retirement Institute, 2018.
[10] "Millennials and Retirement 2020: Understanding, Savings, and Planning", Insured Retirement Institute, 2020.

COVID-19 Impacts America's Retirement Security

A survey[11] conducted by the Alliance for Lifetime Income in July 2020 found that 70 percent of retirement savers are now more pessimistic in their retirement outlook due to the pandemic and 56 percent may need to delay their retirement to a later date. The same survey also found that only one in three Americans are very confident they will be able to cover all their retirement expenses.[12]

Another survey conducted by Transamerica found that more than half of workers have had their employment situation impacted by the pandemic through reductions in hours, wages, lay-offs, furloughs, and early retirements. These actions have negative consequences on a worker's ability to contribute to an employer-provided retirement account. The Transamerica survey found that one in five workers either have or are planning to withdraw funds from retirement savings accounts to cover living expenses[13]. Nearly 20 percent of workers also report contributing less to a workplace retirement savings plan than prior to the onset of the pandemic[14]. Those who reported contributing less to their retirement savings can be further broken down generationally, with about 16 percent being Baby Boomers, 18 percent being Generation Xers, around 15 percent being Millennials, and about 27 percent identified as Generation Z[15].

The negative economic effects on America's retirement security caused by the COVID-19 recession are clearly further exacerbating the retirement savings crisis our nation was facing and has put millions of America's workers' retirement security in great jeopardy. As this subcommittee and Congress considers ideas seeking to help America recover from the COVID-19 pandemic's recession and to mitigate the deepening retirement security crisis, measures to help American retirement savers enhance their ability to save for retirement and strengthen their financial security should be enacted.

Bipartisan, Common-Sense Solutions

To mitigate the looming retirement security crisis, IRI has advocated for the enactment of common-sense, bipartisan policies to expand opportunities for saving, facilitate greater use of lifetime income products, and enhance plan features to boost participation and account balances. The *Retirement Security and Savings Act of 2019*, introduced by Senators Portman and

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11 "Retirement Reset: 70% of Older Working Americans Are More Pessimistic About Their Retirement Plans Due to the Pandemic", Alliance for Lifetime Income, July 29, 2020.
12 Scott G Young, "PBGC 2019 Actuarial Report", Pension Benefit Guarantee Corporation, March 26, 2020.
13 "Retirement Security Amid COVID-19: The Outlook of Three Generations", 20th Annual Transamerica Retirement Survey of Workers, May 2020.
14 *Ibid.*
15 *Ibid.*

Cardin, contain several provisions which IRI believes will help accomplish these objectives. Several measures from the bill were included in IRI's 5-Point Plan to help retirement savers recover from COVID-19[16], and our 2020 Federal Retirement Security Blueprint[17]. These include measures updating the age at which required minimum distributions (RMDs) must be taken; eliminating barriers inhibiting greater use of qualifying longevity annuity contracts (QLACs); extending the start-up tax credit timetable for small businesses; helping employees to save while repaying student debt; allowing Baby Boomers to make additional catch-up contributions; and, facilitating the use of exchange-traded funds (ETFs) in variable annuities.

Update RMDs Rules to Reflect Longer Lifespans and Time Spent in the Workforce

Americans are living and working longer than ever before. Unfortunately, this exposes workers to an increased risk of outliving their retirement assets. For a married couple age 65, there is a 73 percent chance of at least one spouse living to age 90 and a 66 percent chance of at least one spouse living to 92.[18] Although Section 114 of Division O of the *Further Consolidated Appropriations Act of 2020* raised the RMD age from 70 ½ to 72, IRI has long supported a further increase to at least age 75. By increasing the RMD age to 75, adjusting mortality tables to reflect longer life expectancies, and modifying and exempting certain annuity benefits and payments from the minimum income threshold test, Section 108 of the *Retirement Security and Savings Act* of 2019 would provide workers with more time and opportunities to continue to accumulate and grow their savings, thereby improving their retirement security.

Eliminating Barriers to Great Use of QLACs

The *Retirement Security and Savings Act of 2019* will help facilitate a saver's ability to ensure their savings will not be outlived. Current Department of the Treasury regulations governing QLACs impose certain limits on the exemption from the minimum distribution rules until payments commence which have prevented QLACs from achieving their intended purpose in providing longevity protection. The regulations limit the premiums an individual can pay for a QLAC to the lesser of $130,000 or 25% of the individual's account balance in an employer retirement savings plan or IRA. These limits were included in the regulation because the Treasury Department lacked the statutory authority to exempt more than 25% of any account. Section 201 of *the Retirement Security and Savings Act of 2019* repeals the 25 percent and dollar limits and provides Treasury with the statutory

[16] "Helping Retirement Savers Recover from COVID-19", Insured Retirement Institute, April 13, 2020.
[17] "2020 Federal Retirement Security Blueprint", Insured Retirement Institute, February 25, 2020.
[18] IRI Retirement Fact Book 2020: A Guide to Concepts, Solutions, Trends, and Data in the Retirement Income Industry, September 2020

authority necessary to further enhance QLACs by easing the administrative challenges associated with rolling over funds to purchase a QLAC.

Expanded Access to Workplace Retirement Savings

Most Americans are not saving enough for retirement simply because they do not have access to an employment-based saving plan. Recent research has shown only 40 percent of full-time workers at small and medium-sized businesses have access to one of the many types of employment-based retirement plans[19]. It is, therefore, important to encourage employers of all sizes to provide for their employees. Under current law, small employers with up to 100 employees can receive an annual tax credit equal to 50 percent 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. Section 110 of the *Retirement Security and Savings Act of 2019* would make the start-up retirement credit available for the first five years of the plan and increase the maximum credit, providing a greater monetary incentive to employers. Enactment of the legislation would help more Americans gain access to a workplace retirement account.

Help Employees Save for Retirement While Repaying Student Loans

Balancing student loan debt payments has become a major challenge for American workers trying to manage other competing financial priorities, including saving for their retirement through workplace plans. Recent research has revealed that individuals who have student loan debt have lower workplace retirement balances than those who do not. IRI's research has found that of the 46 percent of Millennials not saving for retirement, nearly 10 percent specifically cite wanting to pay off debts as their reason for not contributing to a retirement account[20]. As a result, student loan debt is impacting workers' ability to save for their retirement. Section 112 of the *Retirement Security and Savings Act of 2019* would allow workers making student loan repayments to receive an employer matching contribution into a retirement account as if the loan repayments were salary reduction contributions to the retirement plan.

[19] "National Compensation Survey: Employee Benefits in the United States, March 2018" Bureau of Labor Statistics
[20] "Millennials and Retirement 2020: Understanding, Savings, and Planning", Insured Retirement Institute, 2020.

Increase Catch-Up Contribution Limits for Baby Boomers

Current laws allow workers who reach age 50 to make additional contributions to a retirement plan up to an amount set by the Internal Revenue Service each calendar year. However, IRI research has shown unprecedented retirement anxiety among the Baby Boomer generation. This anxiety is associated with low savings rates – 45 percent of Baby Boomers have zero retirement savings – and has forced many Boomers to postpone retirement[21]. To encourage Baby Boomers to increase their savings, Section 121 of the *Retirement Security and Savings Act of 2019* would allow Americans who obtain the age of 60 to make additional catch-up contributions at a higher dollar limit to their retirement plans than the existing amount set for those over age 50.

Facilitate the Use of ETF Investments in Variable Annuities

Currently, low-cost, high-value investment exchange-traded funds (ETFs) are available as investment options for retirement plans, IRAs, and taxable investment accounts. However, they are not generally available within variable insurance products. Due to Treasury Department regulations that predate ETFs and the structure of the funds, a technical gap has been created, inhibiting the inclusion of ETFs on the menu of investment options for variable insurance products. Section 204 of the *Retirement Security and Savings Act of 2019* would direct the Treasury Department to promulgate regulations to reflect the structure of ETFs and clarify that similarities between an insurance-dedicated fund and another fund will not cause the insurance-dedicated fund to be treated as publicly available under diversification rules involving investor control.

Conclusions

IRI appreciates the opportunity to submit this statement for the record to the Subcommittee and urges Congress to act on comprehensive retirement security legislation to enhance retirement savings opportunities, increase access to lifetime income solutions, and provide options that enhance the retirement security in the United States. For the reasons cited above, IRI is proud to reiterate our support for the *Retirement Security and Savings Act of 2019* and the solutions it provides to workers and retirees by not only mitigating obstacles they face in the pursuit of preparing and saving for retirement but also by assisting retirement savers recovery from the economic impact of the COVID-19 pandemic.

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[21] "Boomer Expectations for Retirement 2019: Ninth Annual Update on the Retirement Preparedness of the Boomer Generation", Insured Retirement Institute, April 8, 2019

IRI also calls on this Subcommittee to examine and consider HR 8696, the *Securing a Strong Retirement Act of 2020*[22], which was introduced by House Committee on Ways and Means Chairman Richard Neal and Ranking Member Kevin Brady. The House legislation contains nearly two dozen provisions that are identical or like those included in the *Retirement Security and Savings Act of 2019*. With both the House and Senate introducing comprehensive retirement security legislation, IRI urges both chambers of Congress to work together and act on legislation which addresses retirement issues with bipartisan supported, common-sense solutions.

We have the right legislative solution, the right leadership, and bipartisan support. Acting now will demonstrate once again that Congress can deliver bipartisan solutions to help America's workers and retirees when they need it most.

Thank you for the opportunity to present this statement for the record. It is our hope you will find it useful, and IRI welcomes the opportunity to work with the Subcommittee in the future as you consider legislative avenues to help our nation's workers and retirees achieve their retirement goals.

[22] Securing a Strong Retirement Act of 2020 (H.R.8696), introduced in the U.S. House of Representatives, October 27, 2020.