John W. Mangan
Vice President, State Relations

October 19, 2017 *Sent via electronic mail*

The Honorable Tomas Salazar, Chair
The Honorable George Munoz, Vice Chair
Investments and Pensions Oversight Committee
State Capitol, Room 322
Santa Fe, New Mexico 87501

Dear Chair Salazar and Vice Chair Munoz,

Thank you for the opportunity and privilege of speaking to your committee on October 20 as you explore the subject of retirement insecurity. Our member companies are committed to helping the residents of New Mexico and the United States achieve financial security not just during retirement, but for life.

ACLI members offer a wide range of retirement savings plans, including pensions, 401(k) plans, IRAs and payroll deduction arrangements. In addition, our entire portfolio of insurance products supports retirement security. Life insurance provides a vehicle for individuals and small business to accumulate retirement savings, and the tax-free benefits enable spouses and families to establish a retirement plan or education fund. Annuities are the only financial product that can turn retirement savings into a guaranteed income for life. Disability income insurance and long-term care insurance protect workers and retirees from depleting their retirement savings. Thus, life insurers provide a critical private sector safety net for American families.

We are pleased to offer our resources to your committee, as well as to the recently formed Retirement Income Security Task Force, as you study ways to increase retirement and economic security in the State of New Mexico. Attached to this letter are several items we hope will be helpful in your deliberations:

New Mexico Fact Sheet

This research summary shows the positive impact of life insurers on the financial security of New Mexicans. Our 243 members licensed in New Mexico account for 94% of all life insurance coverage in the state and 97% of all life benefits and annuity payments made to state residents. There are more than 624,000 life insurance policies in force, averaging $113,000 in face value. In 2015 alone, life insurers paid more than $2 billion in benefits to state residents. We are also proud of our $28 billion of investments in the New Mexico economy--- stocks, bonds and mortgages that finance business development, job creation, infrastructure, small businesses and family farms throughout the state.

Supporting the Private Retirement System

The private retirement system provides a robust and growing foundation for millions of Americans' retirement security through defined contribution plans, such as 401(k)s, 403(b)s and 457 plans, as well

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as IRAs and individual annuities. In fact, nearly 80% of full-time workers have access to workplace retirement plans and more than 80% of those with access participate in the plans. Employer-based retirement plans are available to more than 83 million American workers and play a vital role in creating a safe and secure retirement. A study by the Employee Benefit Research Institute finds that access to an employer plan is especially important for low- and moderate-income workers, 71% of whom are more likely to save for retirement when they have a workplace option.

We have attached fact sheets showing how private defined contributions plans (with aggregate assets of $5.3 trillion) and IRAs (with aggregate assets of $5.7 million) are helping millions of American achieve retirement security.

It's important to clarify that there is widespread access to employer and individual retirement plans in New Mexico. There is a robust, competitive marketplace for employer retirement plans provided by our members and many other financial services companies, including banks, credit unions, payroll providers and investment firms. For workers who are not eligible for an employer sponsored plan, IRAs and individual annuities are widely available from thousands of licensed providers, financial institutions and even online.

We are happy to share research with you that consistently shows that the real barriers to worker savings are economic ones: the fragility of small businesses, job insecurity, slow wage growth, student and consumer loan debt, health care costs and the rising cost of housing. These are large challenges that can only be met with the joint efforts of the public and private sectors.

ACLI Report on Financial and Retirement Security

Attached is a copy of *Assessing Americans' Financial and Retirement Security,* a comprehensive analysis by ACLI that presents a high-level snapshot of Americans' current state of financial and retirement security. The analysis offers a detailed definition of financial and retirement security across different generations and stages of life, and provides valuable insight into how Americans rely on both public and private sector solutions to prepare for the future.

The assessment finds that the majority of U.S. households – 65 percent – are practicing good financial behaviors and utilizing the correct products and tools to ensure their financial security, or can be on track to become financially secure with modest changes to their current behaviors.

In general, the most financially secure American households practice good financial habits, have a financial plan, maintain an emergency fund, effectively manage risk, make smart use of debt, regularly save a portion of their earnings, and have a retirement income plan that includes guaranteed lifetime income they cannot outlive. These households consistently make good use of private sector financial advisors and retirement solutions as strong and reliable support throughout their lives.

We hope you will consider the full analysis findings as you study and develop policy and consumer education efforts to help New Mexico families achieve financial and retirement security. Included are specific policy recommendations endorsed by ACLI to: increase public awareness and financial literacy, expand small business plan adoption, promote financial protection products such as life, disability and long-term care insurance, promote lifetime income options provided by annuities, and enhance tax incentives for low income savers.

State-Run Retirement Plans for Private Workers

Since 2007, the ACLI has been a resource to many states as they study the retirement security issue and the possibility of creating a state-run retirement option for private workers. After consideration in more than 30 states since 2014, only five states have approved a mandatory, auto-enrollment state-run retirement plan for private workers, and no state has fully implemented such a plan. These "Secure Choice" plans have been rejected because they pose significant costs, risks, and legal liabilities for both the state and private employers, and because there is already a vibrant private marketplace for employer and individual retirement plans. Attached is a brief overview of the history of this issue along with our map summarizing state legislative activity.

It is worth noting that the primary opposition to these plans has come from employers themselves. Employer groups opposing these plans have included local chambers of commerce, statewide business associations, farm bureaus, manufacturers, retailers, restaurants, home builders and truckers. These employers argue that a state mandate on employee benefits conflicts with federal law. They also argue that the auto-enrollment requirement will subject employers to all the responsibilities and liabilities of federal ERISA regulation.

Interestingly, the California Chamber of Commerce and other state employers were neutral on the California proposal based on assurance in statute that the plan would not proceed if it would subject them to these ERISA liabilities. The approved statutes in Connecticut, Illinois and Maryland contain similar language giving assurance to employers. Oregon took a different approach, allowing the plan to be implemented without any such assurance from federal regulators. Oregon has proceeded with a pilot phase enrollment and will be requiring mandatory participation in January 2018. However, a group of large employers has already filed suit against the Oregon plan in federal court, claiming that it violates federal ERISA law. More information on this legal challenge is available at:
http://www.eric.org/legal/the-erisa-industry-committee-files-lawsuit-against-oregon/

The states themselves have been reluctant to adopt the mandatory Secure Choice plans because of these potential conflicts with federal law. In addition, they have found that the startup costs can be daunting: estimates have ranged from $18 million in Illinois to $45 million in Connecticut and $170 million in California. And they fear liability to the General Fund if the plan is not financially self-sustaining.

Rather than a mandatory state-run program, Massachusetts and Vermont have taken a different approach, approving voluntary, ERISA regulated multiple employer plans (MEPS). The Massachusetts CORE plan was just launched on October 12, while the Vermont plan is still under development. It remains to be seen whether employers will embrace this voluntary option and whether the state can operate the plan at a cost that is competitive with private sector options.

ACLI encourages states to embrace workable approaches to increasing retirement savings, such as financial literacy programs, voluntary public/private partnerships and employer and worker incentives. Washington and New Jersey have adopted Small Business Retirement Marketplace programs, connecting small employers to existing, low-cost private plans. There is no employer mandate and no state liability, and workers retain all the protections of ERISA. These plans also tap the marketing power and expertise of private sector agents and financial advisors, who are encouraged to connect employers to the new marketplace. Washington's program is slated to be launched by year end. Meanwhile, Utah this year adopted a simple $500 tax credit for any employer who establishes a new retirement plan.

Looking Forward

ACLI and its members are committed to working with state and federal policymakers to advance balanced solutions that will expand access to employer based plans and increase worker savings. We would welcome the opportunity to elaborate on any of the subjects raised here, and to answer any questions you have on the material we have provided. Please let us know how we can assist in your continuing efforts.

Sincerely yours,

John W Mangan

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LIFE INSURERS AND YOUR STATE 2017

NEW MEXICO

Jobs

- The life insurance industry generates approximately 4,700 jobs in New Mexico, including 2,400 direct employees and 2,300 non-insurance jobs.
- 435 life insurers are licensed to do business in New Mexico and 1 is domiciled in the state.

Protection

- New Mexico residents have $151 billion in total life insurance coverage.
- State residents own 624,000 individual life insurance policies, with coverage averaging $113,000 per policyholder.
- Group life insurance coverage amounts to $80 billion.
- Individual life insurance coverage purchased in 2015 in New Mexico totaled $6 billion.
- $2 billion was paid to New Mexico residents in the form of death benefits, matured endowments, policy dividends, surrender values, and other payments in 2015.
- Annuity benefits paid in the state in 2015 totaled $752 million.

Investments

- Life insurance companies invest approximately $28 billion in New Mexico's economy.
- About $25 billion of this investment is in stocks and bonds that help finance business development, job creation, and services in the state.
- Life insurers provide $844 million in mortgage loans on farm, residential, and commercial properties, and own $5 million in real estate in New Mexico.

Across America

- 75 million American families depend on life insurers' products to protect their financial and retirement security.
- More than 16 percent of Americans' long-term savings is in permanent life insurance and retirement annuities.
- Life insurers pay out $1.7 billion to families and businesses every day.
- Life insurers are leading providers of retirement solutions, including 401(k)s, 403(b)s, 457s, IRAs, and annuities, managing 20 percent of all defined contribution plan assets and 14 percent of all IRA assets.
- The life insurance industry generates approximately 2.5 million jobs in the U.S.
- Life insurers invest $5.9 trillion in the U.S. economy—90 percent of the industry's total assets.
- Life insurers are a major source of bond financing for American businesses, holding 20 percent of all U.S. corporate bonds.

ACLI in New Mexico

- 243 ACLI member companies provide financial and retirement security to families through life insurance, annuities, long-term care and disability income insurance, and retirement plans.
- 97 percent of all life and annuity payments are from ACLI member companies.
- 94 percent of total life insurance coverage is provided by ACLI members.

Sources: ACLI calculations based on National Association of Insurance Commissioners (NAIC) 2015 annual statement data; U.S. Bureau of Economic Analysis, 2015 data; U.S. Census Bureau, 2015 data; U.S. Bureau of Labor Statistics, 2015 data; and U.S. Treasury Department, 2015 data.

KEY FACTS AND FIGURES: THE STRENGTH OF THE PRIVATE RETIREMENT SYSTEM

The private retirement system is strong and serving millions of Americans, providing the foundation for financial and retirement security through defined contribution plans, IRAs, and individual annuities. The industry is committed to working with policy-makers to advance balanced solutions to expand access and increase savings to help even more American families.

Access and Participation

- Nearly 80% of full-time workers have access to a workplace retirement plan, and more than 80% of workers with access participate.[1]
- Employer-sponsored retirement plans offer more than 83 million American workers and their families the opportunity to accumulate savings and improve their retirement security.[2]
- A study by the Employee Benefit Research Institute finds that among low and moderate income workers, 71% are more likely to save for retirement when an employer has a plan.[3]
- IRAs and individual annuities are available for all workers without access to employer-sponsored plans as well as to supplement retirement savings.

Contributions

- Participants are generally contributing 5-7% of salary to 401k plans, and when employer contributions are added to employee contributions, the median contribution rates are around 10% of salary.[4]
- Millennials (those born from 1979 to 1991) show high levels of enthusiasm and confidence for 401(k) plans. 83% of millennial participants made recent contributions to a 401(k) plan, higher than people of a similar age a decade earlier. Millennials who took advantage of guidance have also increased their average deferral rate from 4.5% to 8.7% of salary or wages over the past decade.[5]

Mobility

- While not required to do so, a majority of plan sponsors allow immediate eligibility in their 401(k) plans with no service requirement for their workers (with this trend increasing over time).[6]
- The Bureau of Labor Statistics (2013) reports that, even for those workers aged 35 to 44 years, median job tenure is only 5.3 years with the current employer--demonstrating the need for portable, flexible retirement solutions.[7]

Assets

- The savings and investments held in the retirement system represent the largest share of American households' total accumulated financial wealth. Americans hold $20.8 trillion in retirement assets, outside of Social Security benefits. (as of March 2013).[8]
- Aggregate assets in DC plans have grown to $5.3 trillion.[9]
- Aggregate assets in IRAs (includes roll-overs from other plans) have grown to $5.7 trillion.[10]
- Aggregate assets for individual annuities have grown to over $780 billion.[11]
- These assets invested in capital markets play an important role in the financing of real investment, which in turn is the fuel for long-run economic growth.

1. Bureau of Labor Statistics, U.S. Department of Labor, National Compensation Survey, March 2013. (Note: Data have been rounded. In March 2013, 78% of full-time workers have access to a workplace retirement plan, and 83% of civilian workers with access participate).
2. Bureau of Labor Statistics, U.S. Department of Labor, "Employee Benefits in the United States, March 2012", USDI-12-1380, July 11, 2012 (see: http://www.bls.gov/ncs/ebs/sp/ebnr0018.pdf).
3. Employee Benefit Research Institute (EBRI) estimate using 2008 Panel of U.S. Census Survey of Income and Program Participation (SIPP) data.
4. Vanguard, How America Saves, 2013, Valley Forge, PA: The Vanguard Group, Inc. June 2013 (see: https://pressroom.vanguard.com/nonindexed/2013.06.03_How_America_Saves_2013.pdf).
5. Fidelity Investments, "Save Now, Play Later: Gen Y's Retirement Savings Behaviors." July 2012: 1-2
6. Vanguard, How America Saves, 2013, Valley Forge, PA: The Vanguard Group, Inc. June 2013. (see: https://pressroom.vanguard.com/nonindexed/2013.06.03_How_America_Saves_2013.pdf)
7. Bureau of Labor Statistics, U.S. Department of Labor, "Employee Tenure in 2012." September 18, 2012 (see: http://www.bls.gov/news.release/pdf/tenure.pdf).
8. Investment Company Institute, "The U.S. Retirement Market, First Quarter 2013" June 2013 (See: www.ici.org/info/ret_13_q1_data.xls).
9. "The U.S. Retirement Market, Second Quarter 2013," September 2013, www.ici.org/info/ret_13_q2_data.xls, Tables 1 and 6.
10. Ibid, Table 1. The $20.9 trillion figure refers to assets in all kinds of retirement accounts, not just DC plans.
11. American Council of Life Insurers, Product Line Report, Annuity Insurance, February 2013 (Note: $780 billion is based on 2011 data).

The Private Retirement System Helps Americans Achieve a Financially Secure Retirement

America's employer-sponsored retirement system coupled with individual savings provides a strong foundation for Americans to build a financially secure retirement. Through consistent saving and the power of compound earnings, workers can build a nest egg that—coupled with Social Security—can ensure they maintain their standard of living in retirement.

A study in *USA Today* showed that a 60-year-old who had earned the median income in the U.S. and saved five percent of his or her salary every year since starting work in 1975, would have accumulated $600,488 in retirement savings.[1] And he or she would have more than $1 million at age 65.

Since the introduction of defined contribution (DC) plans more than 30 years ago, DC plans such as the 401(k) have helped workers plan and save for retirement. The ability to use payroll deductions to contribute to an employer-provided retirement plan has been found by many studies to have increased household savings rates.[2] Another study found that workers respond to 401(k) plan eligibility by not only starting to save in their 401(k) plan, but also by saving more through IRAs.[3]

Over the years DC plans have been improved and enhanced to provide plan participants with more effective and safer methods to accumulate adequate assets for retirement.

The adoption of auto enrollment by plan sponsors has greatly increased participation rates, particularly among low-income workers. The selection of default investment options like balanced funds has led to more diversified portfolios while lessening participants' investment risk. Plus, more employers have started granting immediate plan eligibility for new employees, which greatly benefits America's increasingly mobile workforce.

Aggregate assets in DC plans have grown to $5.3 trillion, while aggregate assets in IRAs (including roll-overs from other plans) have grown to $5.7 trillion.[4] The net result is that DC plans have greatly helped millions of Americans save for retirement. And efforts are underway in Washington, D.C. to improve access to DC plans so that even more Americans will be able to enjoy a secure retirement with sufficient lifetime income.

March 2014

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[1] Assumes investing in large-company stocks (60%) and government bonds (40%) that earned 11.3% return. Assumes income rises 1.75% each year over the next five years, Waggoner, November 2013, USA TODAY
[2] Poterba, Venti, and Wise (1995), Venti and Wise (1996), Gelber (2011)
[3] Gelber (2011)
[4] "The U.S. Retirement Market, Second Quarter 2013," September 2013, www.ici.org/info/ret_13_q2_data.xls, Tables 1 and 6

STATE-RUN RETIREMENT PLANS FOR PRIVATE SECTOR EMPLOYEES

After consideration in more than 30 states since 2014, only five states have approved a mandatory state-run retirement plan for private workers, and no state has fully implemented such a plan. These “Secure Choice” plans have been rejected because they pose significant costs, risks, and legal liabilities for both the state and private employers, and because there is already a vibrant private marketplace for employer and individual retirement plans.

Beginning in 2007, several states conducted studies of a potential state-run retirement plan for private sector employees. These studies consistently point to legal and tax obstacles, as well as significant setup and ongoing costs and liabilities. In 2012, Massachusetts passed a 401(k) plan for small non-profit employers, which was just launched on October 12, 2017. In 2012, California passed a mandatory state-run IRA plan for private small businesses but has not been able to implement the plan. In 2014, Illinois passed a similar mandatory auto-enrollment Roth IRA for medium-sized employers but it is also pending. Oregon directed the creation of a mandatory IRA plan in 2015 and launched a pilot phase in July 2017. Large employers have already challenged the plan in federal court. Connecticut and Maryland passed mandatory auto-enrollment IRA plans in 2016. In 2017, Vermont passed a type of multiple-employer plan (Open MEP) not available to private sector employer groups. Each of these programs has faced budgetary, legal, and administrative hurdles.

For the states, several questions loom over these Secure Choice plans:

- How to impose an employee benefit mandate without risking pre-emption by ERISA?
- How to require auto-enrollment without triggering ERISA compliance and liabilities?
- How to assess potential litigation costs and liabilities to the state and private employers?
- How to ensure the plan is financially self-sustaining and not a threat to the General Fund?
- How to finance startup costs, ranging from $18 million (Illinois) to $170 million (California)?

To resolve some of these difficult questions, the proponents urged the Obama Administration through the U.S. Department of Labor to issue guidance on a new type of ERISA safe harbor that would apply to state- or city-run retirement plans for private workers. The DOL responded by adopting rules in August 2016 that outlined an ERISA safe harbor for a state-run, auto-enrollment IRA plan, but only if the sponsoring state met certain requirements, such as taking responsibility for the safety of worker contributions and savings, and providing a mechanism for enforcement of worker rights.

With the election of a new Administration, Republicans in Congress acted to overturn the DOL’s safe harbor rules by using the Congressional Review Act. House Joint Resolutions 67 (municipal plans) and 66 (state-run plans) were passed by both houses and signed by the President. These actions permanently repealed the special safe harbor for city- and state-run plans. The five states that had approved a Secure Choice plan (CA, CT, IL, MD, OR) say they will continue to move forward. However, they will now face even greater potential risk of liability and conflict with federal ERISA requirements.

ACLI encourages states to embrace workable approaches to increasing retirement savings, such as financial literacy programs, voluntary public/private partnerships and employer and worker incentives. Washington and New Jersey have adopted Small Business Retirement Marketplace programs, connecting small employers to existing, low-cost private plans. There is no employer mandate and no state liability, and workers retain all the protections of ERISA. Utah this year adopted a simple $500 tax credit for any employer who sets up a new plan. ACLI also supports congressional action to create “starter 401(k)s” for small employers and allow private employer groups to create Open MEPs for diverse businesses.

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ACLI
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ASSESSING AMERICANS' FINANCIAL AND RETIREMENT SECURITY

AMERICAN COUNCIL OF LIFE INSURERS
September 2017

OVERVIEW

Millions of American households are on track to a financially secure future as a result of making balanced and informed decisions about spending and saving, having a financial plan and working to build long-term savings, and taking steps to protect their families against life's many risks. The private sector has long partnered with families to provide financial guidance and solutions that help them reach their goals and achieve peace of mind.

Assessing Americans' Financial and Retirement Security, produced by the American Council of Life Insurers (ACLI), offers a comprehensive definition and assessment of households' financial and retirement security. The analysis explores four generations at different stages of life to provide a high-level snapshot of Americans' current state of financial and retirement security. Studying the financial habits of different households provides valuable insight into how Americans rely on both public and private sector solutions to prepare for the future.

Policymakers and thought leaders in the retirement security space should consider these findings when developing policy and consumer education efforts to help more families achieve financial and retirement security. This will prove valuable in assessing how new or current regulations, legislation, and external events may impact the overall financial well-being of American households. The ACLI analysis encourages the adoption of policies that make financial and retirement security solutions more easily available and accessible to all populations. These recommendations will help maintain the strength of private sector financial and retirement solutions and increase access to helpful products that can lead to a more financially secure future for Americans.

The ACLI analysis is unique in its comprehensive nature and specific focus on life stages and household financial behaviors and habits. It shows how Americans utilize the full set of private sector savings and protection solutions to achieve and maintain financial security and effectively prepare for retirement. In addition to considering retirement savings balances, the analysis takes into account annual contributions to retirement, emergency and other savings, effective management of home equity, credit cards, student loans, and consumer debt, financial and estate planning, participation in defined benefit plans, ownership of annuities to guarantee lifetime income, life and disability income insurance coverage, and preparation for long-term care. The extensive nature of this analysis creates a holistic and highly reliable measure of financial and retirement security.

PRIVATE SECTOR FINANCIAL AND RETIREMENT SOLUTIONS

EVERY DAY BETWEEN NOW AND THE YEAR 2030, 10,000 PEOPLE WILL REACH AGE 65.

America's private sector, including life insurers, plays a key role in addressing the challenges facing American families. Seventy-five million American families rely on life insurers for financial security and peace of mind, now and in retirement. These companies, including ACLI's members, contribute proudly to the financial and retirement security of Americans through a broad range of products and services offered directly to individuals and through employer-sponsored plans, including life insurance, disability income insurance, long-term care insurance, annuities, mutual funds, qualified plan administration and record keeping.

Achieving financial and retirement security takes a conscious effort and educated decision-making by individuals to plan, save adequately, take appropriate investment risks, take financial precautions against the unexpected, and think ahead to retirement. The private sector has created myriad ways to help families with all of these decisions.

Data shows that while there is room for improvement, those who utilize private sector solutions are better prepared financially for the future. The role of the private sector will continue to increase in importance as individuals live longer and become more responsible for savings that will provide their income during retirement.

THE CHANGING RETIREMENT LANDSCAPE

When Congress enacted the Social Security Act of 1935, the age set for receiving benefits was based on average life expectancy at the time. Advances in technology and healthcare over the past 80 years have dramatically increased longevity. Every day between now and the year 2030, 10,000 people will reach age 65. On average, half of those who reach age 65 will live another 20 years.

The increase in life expectancy, along with the steady growth of the retirement-age population, has placed a financial strain on Social Security, heightening the importance of strong and sustainable private sector solutions. These factors have also limited the ability of employers to offer sustainable defined benefit retirement plans, which are linked directly to high retirement preparedness.

On an individual level, financial education and planning must keep pace to assure continued quality of life. On a societal level, public policy should increase access to financial guidance and solutions that aid with financial and retirement security planning, whether on an individual basis or through the workplace. Collaboration between policymakers and the private sector is key to increasing Americans' overall financial security.

THE SURVEY POPULATION OF APPROXIMATELY 4,500 HOUSEHOLDS WAS SEGMENTED INTO 13 COHORTS THAT DIFFER BY AGE, NUMBER OF DEPENDENTS, HOME OWNERSHIP, AND WHETHER THE HEAD OF HOUSEHOLD IS RETIRED.

ACLI FINANCIAL AND RETIREMENT SECURITY ANALYSIS

The American Council of Life Insurers undertook a rigorous assessment of the financial and retirement security of American households using data from Strategic Business Insights' MacroMonitor Survey. The comprehensive analysis closely examines current financial behaviors and habits among various population groups (cohorts), recognizing that households have unique and ever-evolving characteristics and priorities. Financial factors that are critically important for a household at a particular point in time may be significantly more or less important as they progress through life. As needs change, households must constantly monitor and adapt their plans to ensure retirement security.

Cohorts, Indicators & Weighting

To account for varying life stages and circumstances, the survey population of approximately 4,500 households was segmented into 13 cohorts that differ by age, number of dependents, home ownership, and whether the head of household is retired.

A standard was defined to measure the degree of financial and retirement security of each cohort based on fixed-weight and variable-weight indicators. The appropriate assigned weighting for each cohort was determined by reasonable judgment and confirmed by various experts in the field of financial and retirement security, including academics, employer associations, consumer groups, research institutions, and independent sources consulted during the analysis.

This manner of assessment provides the most accurate gauge of the financial and retirement security of households, and offers clear identification of and insight into cohorts that differ most from the larger population.

Fixed-weight indicators reflect financial habits that are consistently important throughout an adult lifetime. This assessement includes the following fixed-weight indicators:

Creating and adhering to a financial plan

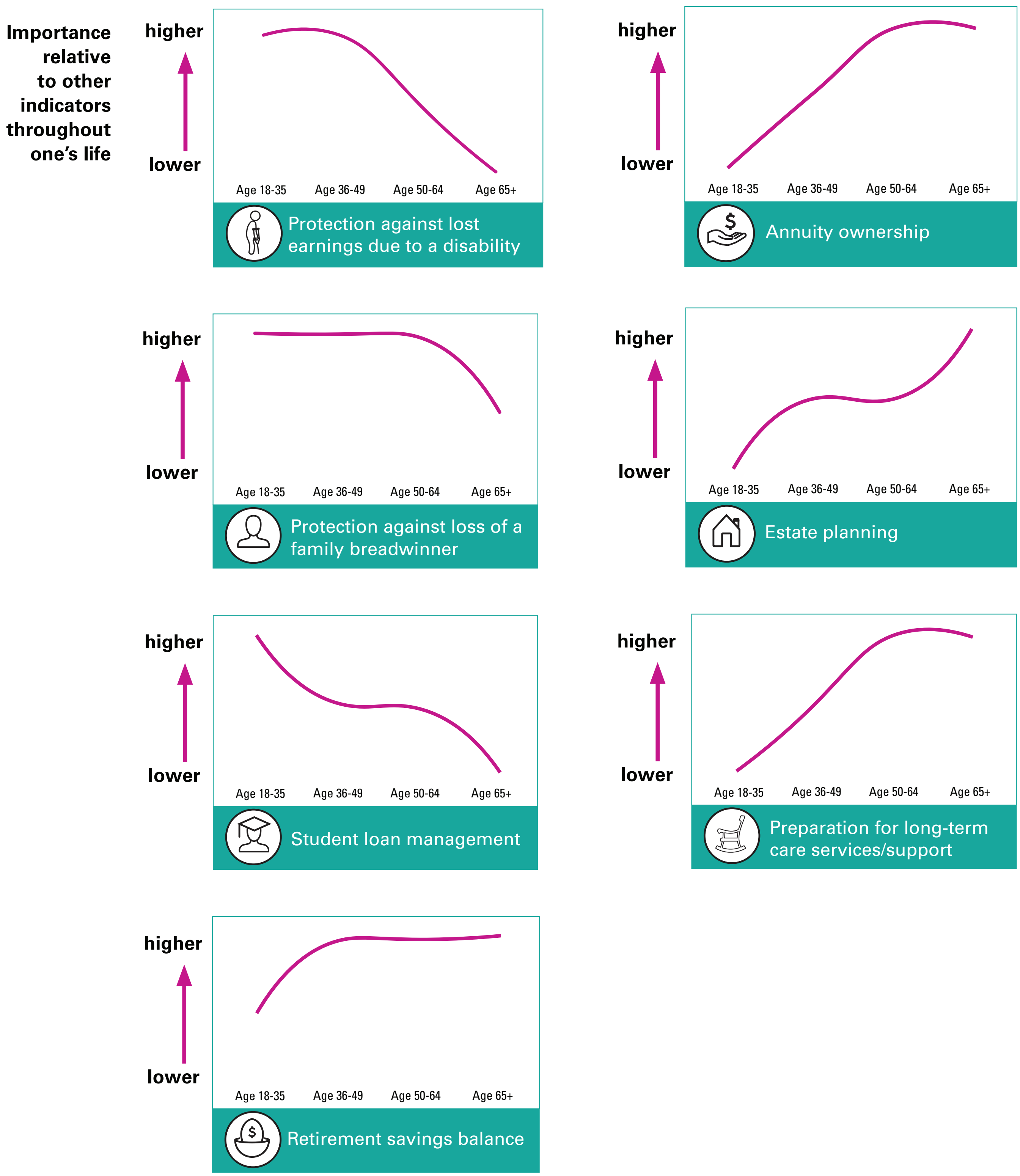
Maintaining sufficient liquid (emergency) savings

Practicing smart credit card habits

Maintaining appropriate home equity (if applicable)

Obtaining health insurance

Variable-weight indicators change in relative importance throughout one's life. In this assessment, the following variable-weight indicators were assigned weights that, in their simplest form, are approximated as illustrated below:



ANALYSIS FINDINGS

Achieving financial and retirement security is a holistic process of making informed trade-offs between spending and saving, building wealth over one's lifetime, and protecting against the risks that can derail those plans.

In general, the most financially secure American households practice good financial habits, have a financial plan, maintain an emergency fund, effectively manage risk, make smart use of debt, regularly save a portion of their earnings, and have a retirement income plan that includes guaranteed lifetime income they cannot outlive. These households consistently make good use of private sector financial and retirement solutions as strong and reliable support throughout their lives.

The assessment summarizes the preparedness level of households in three overarching categories:

- On track to a financially secure future
- Needs some improvement to be on track to a financially secure future
- Needs significant improvement to be on track to a financially secure future

Financial Security by Age Group

Age	On Track	Needs Some Improvement	Needs Significant Improvement
21-34	29%	29%	42%
35-49	33%	25%	41%
50 and Over (not retired)	47%	15%	38%
All Retired Households	65%	13%	22%
Entire Population	**45%**	**20%**	**35%**

May not add up to 100 due to rounding.

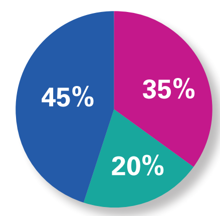
KEY FINDINGS

The ACLI analysis finds that the majority of U.S. households are practicing good financial behaviors and utilizing the correct products and tools to ensure their financial security, or can be on track to become financially secure with modest changes to their current behaviors.

65 percent of U.S. households are on track or nearly on track to be financially secure.

- **45 percent** of U.S. households are financially secure and on track for a secure retirement.
- **20 percent** need to take some modest actions to be financially secure.
- **35 percent** of Americans need to significantly improve their financial security.

A significant finding of the analysis was that small, consistent actions by households can dramatically improve their financial and retirement security in a matter of years.



Households with modest incomes can be financially secure.

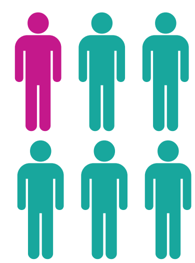
Smart behaviors and habits practiced consistently over time and use of key private sector savings solutions allow individuals at all income levels to become financially secure. While income is a strong contributor to a households' financial and retirement security, a high income alone does not guarantee financial security.

- **25 percent** of the most financially secure households **earn $50,000 or less.**
- **25 percent** of the least financially secure households **earn $72,000 or more.**

Higher education does not guarantee financial security.

Education is most often a prudent investment in one's earnings power. However, the lack of an undergraduate degree—or even high school diploma—has not stopped millions of Americans from achieving financial security. While education is positively correlated with financial and retirement security, higher education is not a requirement for and does not guarantee positive financial habits or positive results.

- Of financially secure households, **more than one in six did not pursue education beyond high school.**
- Among the least financially secure households, 27 percent hold at least an undergraduate degree and **six percent have a master's degree or higher.**



Employees with access to employer-sponsored workplace retirement savings accounts are more likely to save for retirement.

Many employers offer retirement savings accounts as an employment benefit or incentive. According to the Bureau of Labor Statistics, 80 percent of full-time workers have access to an employer-sponsored defined contribution plan, and 80 percent of those with access choose to participate in the plan. The ACLI analysis shows that such programs positively contribute to retirement security.

- **Employees are likely to contribute a greater amount when employers offer auto-enrollment with opt-outs,** with a median $4,000 annual employee contribution versus $3,000 when auto-enrollment is not offered.
- **Employees are likely to contribute a greater amount when employers offer a 'match' to contributions,** with a median $5,000 employee contribution.

Nearly half of all Americans agree they need "expert help in retirement planning."

Accessibility to financial professionals remains important. While financially secure households are twice as likely to feel confident they can meet their long-term financial goals, insecurity prevails across all types of households when it comes to retirement planning.

- **More than half of households felt uncertain about how much to save for retirement,** highlighting the need for increased consumer education on the issue.
- **44 percent of financially secure households use a financial professional to help them plan for retirement,** versus only 16 percent of households in need of significant improvement.

Products that guarantee lifetime income give Americans more confidence in retirement.

Annuities are products that guarantee lifetime income. They help households build savings for retirement and convert those savings into income that cannot be outlived. Annuities provide income security and peace of mind for families.

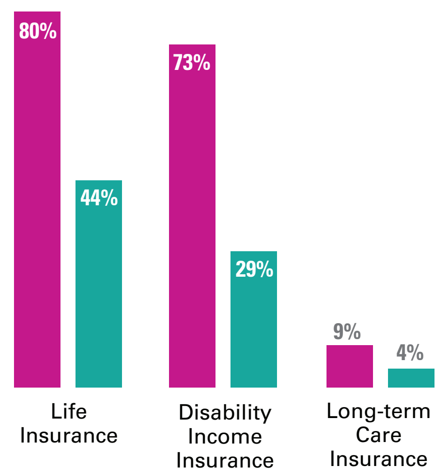
- **More than two-thirds of households worry about having adequate income during retirement,** underscoring the need for products that guarantee lifetime income.
- **Among households aged 50+ who are most financially secure, more than a quarter own an annuity.**

Households that consistently protect against risk are most likely to be financially secure.

Protection against financial risk is a key component of financial security, and as such, households that consistently protect against risk are more likely to be financially secure.

Of financially secure working households,
- **80 percent have life insurance,**
- **73 percent have disability income insurance, and**
- **9 percent have individual long-term care insurance.**

Of working households in need of significant improvement, only
- **44 percent have life insurance,**
- **29 percent have disability income insurance, and**
- **4 percent have individual long-term care insurance.**



INITIAL RECOMMENDATIONS

Recommendations to Policymakers

Strong public policy can help Americans prepare for their financial future. The ACLI analysis highlights the importance of sound financial decisions at every age to the quality of life and well-being of American families.

To ensure Americans have the tools and information they need to make good financial decisions, public policy should seek to enhance financial education and increase access to essential financial protection and retirement savings options that encourage Americans to save for retirement, such as workplace savings plans and IRAs.

The need to improve financial literacy has long been recognized by Congress and the Administration. Policymakers can help Americans develop a basic understanding of financial risk, how to build savings, and how to assess their retirement income needs. The implementation of a national strategy for financial literacy and education would help Americans recognize the importance of retirement savings and understand how insurance products help families manage risk and protect savings.

Smart public policy will also encourage access to the broad set of solutions offered by the private sector that empower Americans to address their financial protection and retirement needs. Products such as life insurance, disability income insurance, long-term care insurance, and annuities serve a critical role in enabling families to protect themselves from risk, more easily save money, and adequately supplement the public sector disability and retirement income benefits earned and provided through Social Security. For millions of Americans, these are indispensable elements that provide lifetime financial security and peace of mind.

Helping families learn about and use financial protection and retirement savings options within a well-developed lifetime financial plan is essential for building a strong foundation for financial security. Policymakers must maintain and strengthen their commitment to financial security so Americans are better prepared to address economic uncertainties at every stage of life.

POLICY CHANGES ENDORSED BY ACLI

Facilitate the Use of Key Financial Protections

HOUSEHOLDS UTILIZING GUARANTEED LIFETIME INCOME PRODUCTS ARE NOT ONLY MORE FINANCIALLY SECURE, BUT ALSO EXPRESS HIGHER CONFIDENCE IN A SECURE RETIREMENT.

Financial products such as life insurance, disability income insurance, and long-term care insurance help guard against financial risk. Public policy can help educate and expose more Americans to these financial protections by allowing for greater innovation in how products are provided, and encouraging individuals to protect against financial risk.

For example:

- **Life insurance:** Open more avenues for life insurance to reach Americans by making it easier for life insurers to innovate and use technology to better serve consumers.
- **Automatic enrollment for disability income insurance:** Allow auto-enrollment for workplace disability income products to increase coverage of protected employees.
- **Long-term care insurance:** Allow the use of some qualified retirement funds for provision of long-term care insurance without tax penalties.

Facilitate Access to/Promote Use of Guaranteed Lifetime Income

Public policies that promote increased use of annuities to guarantee lifetime income and expand the availability of low-cost retirement income solutions will help provide Americans with independence and dignity throughout life. The availability of lifetime income options can be expanded to reach more families by easing burdens in selecting and offering annuity options.

For example:

- **Lifetime income disclosures:** The Employee Retirement Income Security Act of 1974 (ERISA) should be amended to include a lifetime income disclosure on participant benefit statements to make it easier for workers to understand how their savings can address their month-to-month living expenses.
- **Lifetime income portability:** To continue lifetime income protections in the event of a sponsor-initiated change, participants should be permitted to roll over lifetime income options to an IRA that provides the same or similar lifetime income protection.
- **Annuity selection safe harbor:** The safe harbor rule should be improved to provide greater certainty for plan sponsors and fiduciaries when selecting guaranteed lifetime income products. It should be clear that the rule applies to all guaranteed income products including payout annuities with a fixed term. When considering an insurer's financial capability, employers should be able to rely on specific representations from the insurer regarding its status in relation to state insurance regulation and enforcement.

POLICY CHANGES ENDORSED BY ACLI (CONTINUED)

Expand Access to Workplace Savings

Expanding the financial protection and retirement savings options available through the workplace can go a long way toward helping Americans meet their financial goals. Sound federal policies will expand employee access to employer-sponsored retirement plans, increase participation in employer-based plans and IRAs, and preserve the tax incentives for retirement savings that help millions of American families accumulate savings and reach their retirement goals. Reducing red tape and unnecessary expenses will give all Americans more choice and flexibility.

For example:

- **Multiple Employer Plans (MEPs):** Rules should further encourage and help employers not yet prepared to sponsor their own retirement plan join together to achieve economies of scale and receive advantages with respect to effective plan administration, affordability, and management.
- **"Auto-IRA":** Employers without a retirement savings plan should be encouraged to automatically enroll employees into a payroll deduct IRA. "Auto-IRA" sponsors should receive the same level of protection and state wage law preemption offered to employers sponsoring "auto-401(k)s."
- **Starter 401(k)s:** Small employers should be encouraged to offer workplace savings opportunities with simple administrative rules and no required employer contributions.

Increase Participation and Savings Rates

For lifetime financial security for all Americans to become a reality, government policies must be crafted to encourage, not discourage, prudent behavior. Smart policies will encourage employers to offer retirement savings vehicles and other products that help workers build financial security earlier in life.

For example:

- **Automatic enrollment and auto-escalation:** Encourage employers to auto-enroll new employees with a higher default savings and remove the cap on annual increases of employee contribution rates. Also, including periodic re-enrollment of non-contributing workers would likely boost participation and savings in retirement plans.
- **Savers' credit:** Improve tax incentives for lower income workers to save for retirement.
- **Stretch match:** Permit employers to encourage higher contribution levels through a "stretch match" safe harbor that incentivizes workers without increasing employer cost.

ADVICE TO CONSUMERS

While improvements to public policy can greatly enhance access to private sector financial and retirement solutions, many households can take steps today to dramatically improve their financial and retirement security in the near future.

Households can effectively "get on track" by adhering to a financial plan that outlines steps to increase emergency savings, reduce debt, and begin (or increase) contributions to a retirement plan or similar long-term investment.

Individuals should also take common sense measures to protect themselves and their families from life's greatest risks, ensuring they have disability income insurance to protect their ability to earn an income and life insurance to support their family in the case of their death.

At all times, households should feel empowered to turn to experts in the private sector, including life insurers and financial professionals, for financial planning and guidance on how to protect their families, improve their finances, and secure their retirement.

Key Considerations for Consumers

- Maintain at least three months—ideally, six months —savings as an emergency fund.
- Keep student loans to a minimum, and aim to pay off more than the required monthly amount.
- Maintain appropriate home equity for your age.
  - Plan to payoff your mortgage by retirement.
- Obtain adequate health insurance.
- Obtain life insurance coverage that is sufficient given your household's lifestyle, number of dependents, debt, and likely final expenses (i.e., a 35-year-old couple with young children, a mortgage, and one income should ideally have 8–10 times their annual income in life insurance coverage).
- Aim to regularly contribute 10 percent of your pre-tax income to your workplace retirement plan, or at least enough for a full employer matching contribution, if available.
  - If no employer plan is available, consistently contribute to an IRA.
- If working, ensure disability income insurance coverage that would replace at least 60 percent of your income.
- By age 50, start preparing for the likelihood of requiring long-term care in retirement. Seriously consider purchasing insurance coverage for long-term care—individually or as part of a life insurance policy.
  - By age 65, preparing for long-term care is a high priority and should not be delayed.
- By age 50, consider purchasing an individual annuity to provide some source of guaranteed lifetime income above Social Security to cover their essential expenses in retirement.
  - By age 65, own an individual annuity to at least cover your expected essential expenses that are above your Social Security benefits.
- Once you have dependents, or by age 50, have an estate plan in place.

CONCLUSION

Millions of Americans are achieving financial and retirement security, practicing smart financial habits and behaviors, and utilizing public and private sector retirement solutions. However, there remains room for improvement to increase education and access to solutions that help advance financial and retirement security.

The ACLI analysis illustrates the importance of collaboration between policymakers and the private sector to find ways to educate the general public, increase access to financial and retirement security products, and alleviate the stress on governmental programs meant to provide only a floor for one's income in retirement.

Increased access to insurance products that protect against risks—including life insurance, health care insurance, disability income insurance, and long-term care insurance, can help ensure the stability of families throughout life's unexpected twists and turns.

Increased access to retirement solutions, such as annuities, that boost consumer confidence and quality of life is more important than ever with the increasing longevity of Americans and growing strain on Social Security.

America's private sector financial and retirement solutions must remain strong and accessible for the millions of Americans in need of a financially secure future and peace of mind in retirement.

ACLI Resourcing

The ACLI analysis was developed using Strategic Business Insights' (SBI) 2016-2017 MacroMonitor Survey. The MacroMonitor Survey is a nationally representative survey of approximately 4,500 U.S. households and is similar to the Federal Reserve Survey of Consumer Finances (SCF) in scope and sample size.

As the MacroMonitor Survey is administered more frequently and processing time is considerably shorter, its most recent data is more current than the most recent SCF data at any given time. Additionally, while the SCF is typically administered within 80 minutes, respondents have several weeks to complete the extensive and more detailed MacroMonitor Survey. The MacroMonitor Survey also includes unique questions on financial behavior, risk tolerance, perceptions of financial security and well-being, and asks probing questions concerning life insurance products, different types of retirement savings, and household attitudes concerning both.

In the years when MacroMonitor and the SCF were both administered, "household incidences for major financial assets and debt" aligned closely, helping to validate both surveys. The ACLI analysis resulting from the use of MacroMonitor data also aligns broadly with Boston College's National Retirement Risk Index and the Employee Benefit Research Institute's Retirement Confidence Survey.

ACLI

The American Council of Life Insurers is a Washington, D.C.-based trade association with approximately 290 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products and solutions for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 95 percent of industry assets in the United States.

Financial Security...for Life.

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