

American Agriculture Movement

American Agri-Women

American Corn Growers  
Association

American Council of Life Insurers

American Homeowners Grassroots  
Alliance

American Small Business Coalition

Association for Advanced Life  
Underwriting

Black Women Enterprises

Business and Professional  
Women/USA

Citizens Against Government  
Waste

Committee of Annuity Insurers

Federation of Southern  
Cooperatives

Financial Services Roundtable

Hispanic Alliance for Progress  
Institute (HAPI)

Hispanic Business Roundtable

Hispanics Impacting Public Policy

Intertribal Agriculture Council

The Latino Coalition

National Association for Female  
Executives

National Association for Variable  
Annuities

National Association of Farmer  
Elected Committees

National Association of  
Hispanic/Latino Farmers and  
Ranchers

National Association of  
Independent Life Brokerage  
Agencies

National Association of Insurance  
and Financial Advisors

National Association of Small  
Disadvantaged Businesses

National Caucus and Center  
on Black Aged

National Community Pharmacists  
Association

National Consumers League

National Taxpayers Union

Oklahoma Farmers Union

Small Business and  
Entrepreneurship Council

Soybean Producers of America

U.S. Chamber of Commerce

Women Entrepreneurs, Inc.

Women Impacting Public Policy

Women in Need Industries

Women's Institute for a Secure  
Retirement

Women Involved in Farm  
Economics

Women President's Organization



**Statement by Thomas Bartell  
Chairman of Americans for Secure Retirement**

**Senate Special Committee on Aging Hearing  
"Turning Retirement Savings Into Lifetime Income"  
June 16, 2010**

Mr. Chairman and distinguished members of the committee, on behalf of Americans for Secure Retirement (ASR), I welcome the opportunity to submit for the record our statement on policy recommendations to help Americans plan and save for their golden years.

Americans for Secure Retirement is a broad-based coalition of more than 70 member and affiliate organizations committed to raising awareness of the increasing challenges Americans face in having a financially secure retirement. In particular, ASR often focuses on those Americans with little or no access to employer sponsored plans. Our coalition includes organizations that advocate for Hispanics, women, small business, farmers and others, united in an effort to ensure that all Americans have access to guaranteed streams of retirement income that cannot be outlived.

We are pleased that this committee recognizes the importance of helping Americans effectively manage their assets throughout retirement to ensure that they do not outlive their savings. The management side of the retirement policy equation has received relatively little attention, but it is an increasing concern for many Americans. This hearing is both timely and of great interest to the millions of baby boomers who will soon rely on America's retirement system.

There are a number of important factors contributing to the conundrum many face in planning for retirement, including increased longevity, a decreased ability to rely on regular monthly income from Social Security and pensions and, for many, no access or participation in any kind of employer-sponsored retirement plan. The question, then, for policymakers is how to encourage Americans to adequately save and manage those savings so they last for 20 to 30 years or more in retirement. For the reasons outlined below, ASR believes one important policy prescription is to promote individuals' ability to turn their savings into a guaranteed stream of income in retirement – or a 'paycheck for life' – through retirement vehicles such as lifetime annuities.

The United States is facing a looming retirement crisis. People are living longer, and traditional sources of guaranteed retirement income, like pensions and Social Security, cover less and less of what they need in retirement. At the same time, fewer American workers have access to any kind of employer-sponsored retirement plan. For those whose employers do offer a retirement plan, defined contribution plans, such as 401(k)s, have become far more common than defined benefit plans. Making matters worse, the recent stock market declines have driven the average balances in 401(k) plans down to about \$60,000.

In fact, workers aged 45-54 who have been making contributions to a 401(k) plan for at least 20 years saw the value of their retirement fund decrease by nearly 30 percent in 2008. A study conducted by Ernst & Young for ASR last year found that the average recently retired married couple, without any guaranteed source of retirement income, is left with only a 6 percent chance of financial success (not outliving their savings) in retirement if they retain their pre-retirement standard of living. The study also determined that many Americans will be forced to reduce their standard of living, some by as much as 51 percent, to avoid outliving their financial assets.

### **All Americans at some risk**

In policy circles, the notion of the “three legged stool” of retirement security is commonly used to illustrate the basic components necessary for maintaining a healthy living standard throughout retirement. The traditional means of financial security in retirement for Americans rested on 1) Social Security, 2) employer based retirement plans such as pensions, and 3) personal savings.

For many of the upcoming baby boomer generation retirees, Social Security will be the main source of income in retirement. While there is no denying the importance of this program, the unfortunate fact remains Social Security currently replaces only about 40 percent of pre-retirement income. And for those who retire before age 65 – which is more than 75 percent of retirees today - benefits are reduced and Social Security replaces even less. Financial planners have traditionally recommended at least 70-80 percent of pre-retirement income to maintain a retiree’s standard of living.

Similarly, the second leg of that stool, employer-based retirement programs, now supports less than half of all working Americans. Historically, many retirees have depended on pension plans to supplement their Social Security benefits. Participation in traditional defined benefit plans, which were a staple of retirement benefits in the past, has decreased sharply in recent years. The percentage of full-time employees in medium and large private establishments who are covered by defined benefit plans has fallen from 80 percent in 1985 to just 33 percent in 2008 as the trend shifts from offering defined benefit plans to defined contribution plans (e.g. 401(k) plans).<sup>1</sup> Even taking into consideration 401(k)s, half of American workers -- around 80 million -- do not have access to or participate in any sort of employer based retirement plan.<sup>2</sup>

According to Dr. Jeffrey Brown, a former senior economist for the White House Council of Economic Advisers and author of *The New Retirement Challenge*, “these [pension plan] changes represent an historic shift in our retirement landscape, and together place more responsibility on individuals to manage their savings so that they last for a lifetime. It is important for us, as a nation, to find ways to encourage retirees to secure additional and reliable sources of lifelong income so that they can achieve lifelong financial security.”

The shift in demographics in our country means that there is an even greater need for new policies that help Americans ensure a steady income throughout retirement. Today, the life expectancy of a 65-year-old is close to age 83, more than four years longer than in 1960. In fact, half of all retirees will live beyond average life expectancy. And, unprecedented numbers will be living into their 90s and past 100. The likelihood of living longer compounds both the savings and financial management challenge for individuals and families: retirees not only need to save

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<sup>1</sup> Employee Benefit Research Institute, “Percentage of Employees Participating in Retirement and Accumulation plans, medium and large employers;” Table 10.1d (<http://ebri.com/pdf/publications/books/databook/DB.Chapter%252010.pdf>)

<sup>2</sup> Employee Benefit Research Institute, “Percentage of Various Work Forces who worked for an employer who sponsored a retirement plan and the percentage who participated;” Table 10.10b. (<https://docs.google.com/viewer?url=http://ebri.com/pdf/publications/books/databook/DB.Chapter%252010.pdf>)

more, they also need to manage these resources effectively so they provide a sufficient income to sustain a steady standard of living for 20 to 30 or more years.

### **Some Americans are more at risk than others**

There are certain segments of the American population that face more difficult challenges in retirement. Women, minorities, small business owners, and farmers generally have less access to, and lower participation rates in, employer-based retirement plans.

Women live longer than men, spend more time in retirement and are widowed more frequently. A typical 65-year-old woman has a 31 percent chance of living to age 90 or older, as compared to only 18 percent for a typical 65-year-old male. Today, nearly 60 percent of older American women are single, with more than 45 percent widowed. On average, women have fewer full-time working years than men and have median annual earnings that are about \$10,000 less than those of working men. Furthermore, many women work part time for all or part of their working years and therefore accrue less Social Security benefits, and fewer still participate in employer-provided retirement plans. These disparities lead to lower savings and retirement income and smaller payouts from Social Security, ultimately resulting in a greater risk of poverty in retirement.<sup>3</sup>

Minority groups, such as Hispanics, also face significant challenges. While Hispanics work in all sectors of the economy, they are more heavily concentrated in jobs that lack traditional retirement options and typically earn a lower income, affecting their ability to save for retirement. For example, a recent study conducted by The Hispanic Institute and ASR reported that only 25.6 percent of Hispanics are covered by pension plans, compared to 42.5 percent of whites and 40 percent of African-Americans.<sup>4</sup>

Farmers are in a similar situation. Compared with non-farm workers, farmers are less likely to participate in employer-sponsored retirement plans, further limiting their sources of retirement income. Less than 30 percent of agricultural workers in America work for an employer with some form of retirement plan. Even more troubling is the fact that less than one quarter of agriculture workers participate in any retirement plan. That means the vast majority of farm workers have no other guaranteed sources of retirement income beyond Social Security.<sup>5</sup> America's rural and farming communities are influenced by factors that make obtaining a secure retirement uniquely difficult. In addition, there is extreme variability in farm income due to largely uncontrollable fluctuations in commodity prices, weather, and macroeconomic policies making it more difficult for farmers to adequately plan and save for retirement.<sup>6</sup>

Small business owners also face unique challenges that put them at risk of falling short in retirement. Many small business owners reinvest significant portions of their income into their businesses, and therefore cannot afford the cost of establishing and maintaining traditional defined benefit or defined contribution plans for themselves and their employees. These entrepreneurs often expect to use the proceeds from the future sale of their business to finance their retirement.

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<sup>3</sup> Americans For Secure Retirement: The Female Factor, 2008; by Cindy Hounsell, WISER (Women's Institute for a Secure Retirement); ([http://paycheckforlife.org/uploads/ASR-white\\_paper\\_FINAL.pdf](http://paycheckforlife.org/uploads/ASR-white_paper_FINAL.pdf))

<sup>4</sup> Hispanics And Retirement: By The Hispanic Institute, For Americans For Secure Retirement 2009, (<http://paycheckforlife.org/uploads/white-paper-hispanics-and-retirement-english.pdf>)

<sup>5</sup> Employee Benefit Research Institute, "Retirement Plan Sponsorship, Participation and Vesting 2003;" Table 10.9. (<http://ebri.com/pdf/publications/books/databook/DB.Chapter%252010.pdf>)

<sup>6</sup> Lifetime Income Crucial to Farmer's Retirement Security," American Corn Growers Association and Americans for Secure Retirement, ([http://paycheckforlife.org/uploads/Ag\\_Issue\\_Brief\\_FINAL.PDF](http://paycheckforlife.org/uploads/Ag_Issue_Brief_FINAL.PDF))

## Policy recommendations

A central challenge for policymakers is the need to make retirement options that provide steady, lifetime benefits more accessible to Americans. It is also important to ensure these opportunities reach the populations, particularly women, small business owners, farmers and minority groups, that have the least access to employer based retirement programs, or get the least from these and Social Security.

Annuities are the only product that can provide Americans with a guaranteed stream of lifetime income through retirement - a “paycheck for life” – to ensure that they will not outlive their income. An annuity provides lifetime payment at regular intervals. These lifetime payments begin when the retiree determines that the payments are needed and continue for the lifetime of the retiree and, if selected, his or her spouse.

ASR would encourage the committee to seriously consider policy changes to give more Americans access to vehicles that will provide this guaranteed lifetime income in retirement. For example, ASR supports the Retirement Security for Life Act, S. 1297, introduced by Sen. Kent Conrad (D-ND) and Sen. Pat Roberts (R-KS), and similarly, HR 2748, the Retirement Security Needs for Life Act, introduced by Representatives Earl Pomeroy (D-ND) and Ginny Brown-Waite (R-FL). Both of these measures would encourage Americans to invest a portion of their savings in lifetime annuities to secure a guaranteed source of income in retirement.

These bills take a sensible approach to encouraging Americans to plan for the long-term. It should be among our top priorities to make sure that Americans are provided with the tools to help them adequately prepare for retirement and manage those savings so they last a lifetime.

Also of note, earlier this year the Obama Administration announced initiatives to help middle income Americans achieve a financially secure retirement, recognizing the challenges faced by these Americans and the need to do more to give families better choices to reach a secure retirement. The Administration stated their commitment to increasing the availability of guaranteed lifetime income through annuities and other forms of guaranteed income. ASR supports policy and rules changes that would remove obstacles and provide incentives to encourage employers to provide their employees with the option to annuitize all or a portion of their defined contribution retirement accounts, and to encourage employees to take advantage of such options. Similar incentives should be available for the large number of Americans whose retirement savings are held outside of employer plans, such as in individual retirement accounts and annuities.

We are encouraged by this committee’s demonstrated interest in addressing retirement challenges and look forward to helping you in these efforts. Thank you.

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