Statement of
Frank Keating
President and CEO
American Council of Life Insurers
Before
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Hearing On
"Retirement Security: What Seniors Need to Know About Protecting Their Futures"
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Thank you, Mr. Chairman, for giving me the opportunity to participate in this important hearing concerning what our country's older citizens need to know to protect their futures. As head of the American Council of Life Insurers, I represent 383 life insurance companies. The products provided by the life insurance industry help families and individuals accumulate and protect assets for retirement, as well as manage savings during retirement to provide a guaranteed income for life.

Life insurance products protect families from financial devastation caused by an untimely death, disability, or chronic long-term illness. The industry's $3.3 trillion in assets makes it the fourth largest institutional investor in the U.S., and the second largest among investors specifically geared toward long-term investment.

There is a tidal wave coming of 76 million soon-to-be retiring baby boomers and, quite frankly, most of them are just not well prepared. The average American between the ages of 55 and 64 has cash assets of only about $47,000. With the Social Security system under strain and employer sponsored pension plans offering fewer guarantees, the life insurance industry can help supplement retirement planning with savings and asset management options. An annuity can become a personal pension plan to provide a guaranteed lifetime income

Insurance products are about risk management, and today's retirees are facing one of the least understood risks of all -- longevity. Advances in medicine and technology are greatly extending the lives of Americans. In the next 30 years, the proportion of Americans aged 65 and over is expected to increase by half, to comprise 20% of the total population. This means many of us working today will spend 20 to 30 years or even more in retirement. For these Americans, these should be the golden years; living comfortably and aging well.

Especially for seniors, financial literacy is more than just knowing the difference between a stock and a bond. It's more than just saving enough money. It's the responsibility of managing those assets so they last a lifetime. And, for many Americans, retirement planning doesn't stop with just funding their own needs. Many of them hope to leave something for their loved ones. However, recent surveys indicate that less than 40% of Americans believe they will even have enough money to live comfortably themselves when they retire.

The life insurance industry is uniquely positioned to help Americans adapt to a retirement that will last longer and have fewer guarantees than previous generations enjoyed. Unlike other financial service providers, the life insurance industry helps people accumulate assets for retirement, manage those assets throughout their lives and protect against financial difficulties resulting from the death of a spouse, disability, long-term care needs or simply living longer than expected. But which of the wide array of products available are best to meet what need? Do older Americans need life insurance? Annuities? Long-term care insurance? Disability income coverage? When is the best time to purchase these products? How much coverage is appropriate?

Seniors need to create a checklist as they prepare to enter retirement. We think, at a minimum, they should ask the following questions of themselves, their family members and a trusted financial advisor:

- What are my/our basic living expenses now?
- Do I foresee any significant changes in those expenses?
- Do I have life insurance? Does my spouse? How much?
- Do we have long-term care insurance? How much?
- Will I receive pension benefits from my job? Will my spouse? How much?
- How much have I/we saved for retirement? How can we make those savings last my/our lifetime?

The life insurance industry and its products can help answer these questions. Life insurance can protect both a retiree’s family and his or her estate. Long-term care insurance can protect retirement savings from depletion in the event of chronic illness. Annuities can make sure those retirement savings don’t run out.

Life insurance, disability income insurance and annuities help people manage the financial risk of the unexpected. Life insurance protects a family in the event of either partner's premature death. Disability income insurance provides a continued income stream—and helps guard against premature depletion of retirement savings—if a family breadwinner is unable to work due to an accident or illness. Life insurance benefits can assure that the family will have cash available to help make the mortgage or tuition payments, run the household and pay bills. The amount of life insurance that an individual should maintain depends on his or her personal and financial situation, but the answers to two basic questions can give the necessary information to start with. The questions are (1) who do I love/who am I responsible for? and (2) who do I owe/what financial obligations do I have? Regardless of age, everyone should ask themselves those questions and use life insurance to make sure they are answered.

Annuities offer the opportunity to both accumulate retirement savings and to ensure that those savings can't be exhausted in retirement, no matter how long that may be. Earnings grow tax-deferred during the accumulation phase of an annuity and, if a lifetime payout plan is chosen, payments continue for life. An annuity is a personal pension plan that can be used by anyone to supplement other public and employer-paid retirement income. Longevity risk is the biggest and least recognized financial challenge facing our seniors today and using annuities, as part of any financial plan is an important part of assuring adequate assets in retirement.

A recent article in *Bloomberg Personal Finance* estimates there are about $890 billion worth of variable annuities in place. We don’t want to create tax policy that drives older Americans away from annuities. During the current debate in Congress over taxes, it’s vital that annuities are treated fairly when it comes to dividends taxation. Annuity owners and retirees should not be at a disadvantage. We understand that some members of Congress are considering reintroducing the Lifetime Annuity Payout proposal – LAP – which would encourage annuity policy owners to take the lifetime income option when withdrawing money. LAP would encourage the lifetime income option by reducing to the capital gains rate the tax on earnings in an annuity if the owner did indeed select the lifetime income option.

Deferred annuities, which include both the accumulation and payout phases, can be purchased with a lump sum, perhaps from the sale of a home or the liquidation of a business, or by making multiple payments over a period of years. Deferred annuity purchasers can choose when their payout begins. Immediate annuities are purchased with a single payment and payout must begin within one year.

Annuities, whether deferred or immediate, are of two general types: fixed or variable. A fixed annuity offers a fixed rate of return during accumulation and guarantees a fixed payment at payout. Variable annuities allow the owner to choose from selected investment accounts and contract values generally reflect the performance of those accounts. The payout from a variable annuity could vary based on the performance of the underlying investments. Only an annuity can provide income you can't outlive.

The cost of long-term care could financially devastate even the best-planned retirement, which makes long-term care insurance a crucial component of retirement planning. Currently, it costs over $16,000 annually for daily visits by a home health care aide and over $55,000 per year for nursing home costs. Within the next 30 years, these expenses are projected to reach $68,000 per year for a home health care aide and $190,000 for a year of care in a nursing home. These costs can quickly erode a hard-earned retirement nest egg. Moreover, we know you are acutely aware that Medicaid will never be able to foot the bill for the millions of baby boomers who are going to need long-term care services in the not-so-distant future. Long-term care insurance can protect Americans from the potentially catastrophic costs of services that would otherwise wipe out their own retirement savings.

Today's long-term care insurance polices cover a wide range of services to help people live at home, participate in community life, as well as receive skilled care in a nursing home. Policies may also include respite care, medical equipment coverage, care coordination services, payment for family caregivers, or coverage for home modification. These options can enable people who are chronically ill to live in the community and to retain their independence.

ACLI believes that protection and coverage for long-term care is critical to the economic security and peace of mind of all American families and it is an important part of the solution for tomorrow's future. As Americans enter the 21st century, living longer than ever before, their lives can be made more secure knowing that long-term care insurance can provide choices, help assure quality care, and protect their hard-earned savings and assets when they need assistance in the future.

The financial decisions Americans must make as they approach retirement maybe even more crucial than those they make while still working. The variety of products offered by life insurers are critical components of the financial planning which can assure that today's older Americans live comfortably during their retirement years.

I appreciate the opportunity to appear before you today and speak to the real needs of aging Americans as they prepare for retirement. I would be happy to answer any questions you may have.